AUDITOR GENERAL
Alberta

Report of the Auditor General of Alberta

JULY 2014

AUDITOR GENERAL
Alberta

Mr. Matt Jeneroux, MLA
Chair
Standing Committee on Legislative Offices

I am honoured to send my *Report of the Auditor General of Alberta—July 2014* to Members of the Legislative Assembly of Alberta, as required by Section 20(1) of the *Auditor General Act*.

[Original signed by Merwan N. Saher]

Merwan N. Saher, FCA
Auditor General

Edmonton, Alberta
June 27, 2014

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REPORT OF THE AUDITOR GENERAL OF ALBERTA

July 2014

Auditor General's Message

This public report includes the results of one new systems audit and seven follow-up systems audits, and a comment on the budget for financial reporting.

Results analysis reporting—new audit

Why we did this audit

We examined the quality of the government's results analysis reporting to Albertans, for two reasons:

- Public accounts committee members are questioning the quality of this reporting, finding that it lacks detail and precision.
- We want to highlight—and reinforce—the government's results-based-budgeting initiative. This initiative reviews programs and services to ensure they will achieve results that Albertans want. Consistent with this, the government needs to tell Albertans whether it is achieving the results they want. Simply put, there is not much point in setting targets for results unless you analyze the results to learn what is working and what is not.

What we found

Public service managers and the government need to improve the quality of results analysis in many ways, but the payback will be worth the effort.

Ministries need to:

- identify and analyze results to improve their reporting
- present a clear analysis of results for significant matters, including business plan priority initiatives
- shift the balance in their annual reports—increase the reported analysis of results and decrease the number of programs and activities described without analysis
- develop standardized guidance and training to direct and support improving results analysis reporting by ministries
- monitor results analysis reporting compliance with the annual report standards within each ministry and across government

Results management

A results management framework is essential for progress. The framework shows that the whole purpose of results analysis reporting is to learn from what you do, so you can do better in the future. The framework has three inseparable elements: governance, oversight and accountability for results.

Governance—a process and structure that bring together capable people and relevant information to achieve desired results (for cost-effective use of public resources).

Oversight—the glue that holds everything together. If more people practiced proper oversight, the results could be spectacular. Ministers need to provide oversight—not management (managers do that). To provide proper oversight, ministers need to:

- be vigilant
- check that processes and systems, including the accountability-for-results system, are working well
- signal to managers preferred behaviour

Without proper oversight, achieving results is a game of chance.

Accountability for results—the obligation to show continually improving results in the context of fair and agreed-on expectations. For Albertans to receive value for money, all those who use public resources must:

- set measurable results and responsibilities
- plan what needs to be done to achieve results
- do the work and monitor progress
- report on results
- evaluate results and provide feedback (in other words, results analysis)

Managers have to feed the results analysis back into their planning. Should they continue a program at its current cost because it produces the results they want? Should they spend more because evidence shows that will produce more of what they want? Should they quickly abandon a program that is not working, or that costs too much for the results it achieves?

We stress that the framework's three parts—governance, oversight and accountability for results—work together to produce results. You won't get accountability for results without oversight. Invariably, good oversight improves results. And without the right people and information, you have a high risk of waste.

This results management framework can and should operate at three levels:

- the government level—the key being ministerial oversight of the public service
- the cross-government, deputy minister level—We see this level as a virtual entity. This is where evidence-based long-term planning, enterprise-wide risk management, resource allocation and government-wide results analysis has to be overseen.
- the individual organization level—a Crown agency or department, for example

Repeated Recommendations—follow-up audits

We followed up on 15 outstanding recommendations. We assessed nine as implemented and had to repeat six.

That a large number of recommendations are repeated should be a concern for the government and the public accounts committee. We repeat a recommendation when we believe not enough has been done to resolve the findings we had in our original audit. We draw particular attention to four of these repeated recommendations.

Recommendations 2 and 3 relate to climate change strategy. Without a clear process for monitoring progress, the government cannot know if the actions it is funding are those most likely to yield the results it expects. These repeated recommendations illustrate why results analysis reporting is not what it should be; the actions that should be reported on are not clear and reporting on actual results is not happening.

Recommendations 4 and 7 focus on enforcement of laws. There is a risk that taxpayers may have to bear the cost of remediating sand and gravel pits if systems to ensure operators meet their remediation obligations are not improved. And, there is a risk to public safety if timely and appropriate enforcement action is not taken on high risk commercial vehicle carriers.

Budget for financial reporting—other audit

In early 2014 the Department of Treasury Board and Finance spent significant time and effort to prepare the constructed budget included in the province's 2013–2014 consolidated financial statements, released publicly in June 2014. This constructed budget is necessary because the budget prepared and presented in accordance with the *Fiscal Management Act* is not suitable for comparison to the audited results contained within the province's consolidated financial statements.

Now that the department has developed processes to prepare a constructed budget, the department needs to consider when the constructed budget should be prepared and made public. In our opinion, the constructed budget should be prepared and made public prior to the beginning of the period to which it relates. Ideally, this would be done at the same time the budget under the *Fiscal Management Act* is made public.

July 2014 Recommendations

We conducted our audits in accordance with the *Auditor General Act* and the standards for assurance engagements of the Chartered Professional Accountants of Canada.

This report contains one new and six repeated recommendations to government. The repeated recommendations have been made because we do not believe there has been sufficient action taken to implement our previous recommendations.

As part of the audit process, we provide recommendations to government in documents called management letters. We use public reporting to bring recommendations to the attention of Members of the Legislative Assembly. For example, members of the all-party Standing Committee on Public Accounts refer to the recommendations in our public reports during their meetings with representatives of government departments and agencies.

We believe all of the recommendations in this report require a formal public response from the government. In instances where a recommendation has been made to a board-governed organization, we expect the organization to implement the recommendation and report back to its respective government ministry as part of proper oversight of the organization. By implementing our recommendations, the government will significantly improve the safety and welfare of Albertans, the security and use of the province's resources, or the governance and ethics with which government operations are managed.

Reporting the status of recommendations

We follow up on all recommendations. The timing of our follow-up audits depends on the nature of our recommendations. To encourage timely implementation and assist with the planning of our follow-up audits, we require a reasonable implementation timeline on all recommendations accepted by the government or the entities we audit that report to the government. We recognize some recommendations will take longer to fully implement than others, but we encourage full implementation within three years. Typically, we do not report on the progress of an outstanding recommendation until management has had sufficient time to implement the recommendation and we have completed our follow-up audit work.

We repeat a recommendation if we find that the implementation progress has been insufficient.

We report the status of our recommendations as:

- **Implemented**—We explain how the government implemented the recommendation.
- **Repeated**—We explain why we are repeating the recommendation and what the government must still do to implement it.

On occasion, we may make the following comments:

- **Satisfactory progress**—We may state that progress is satisfactory based on the results of a follow-up audit.
- **Progress report**—Although the recommendation is not fully implemented, we provide information when we consider it useful for MLAs to understand management's actions.

STAND-ALONE SYSTEMS AUDITING—NEW AUDIT

Treasury Board and Finance—Results Analysis Reporting

Page 19

RECOMMENDATION 1: GUIDANCE, TRAINING AND MONITORING NEEDED

We recommend that the Department of Treasury Board and Finance, working with the Deputy Ministers' Council, improve:

- the guidance and training for ministry management to identify, analyze and report on results in ministry annual reports
- processes to monitor ministry compliance with results analysis reporting standards

Implications and risks if recommendation not implemented

Meaningful results analysis reporting is critical to the government's demonstrating its stewardship of Alberta's resources. In the absence of quality results analysis reporting, Albertans will not receive sufficient information to assess whether ministry programs are achieving desired results. Further, there will be insufficient information reported to evaluate whether the costs to achieve the results are reasonable.

STAND-ALONE SYSTEMS AUDITING—FOLLOW-UP AUDITS

Environment and Sustainable Resource Development—Climate Change

Page 41

RECOMMENDATION 2: IMPROVE PLANNING—REPEATED

We again recommend that the Department of Environment and Sustainable Resource Development improve Alberta's response to climate change by:

- establishing overall criteria for selecting climate change actions
- creating and maintaining an implementation plan for the actions necessary to meet the emissions intensity target for 2020 and the emissions reduction target for 2050
- corroborating—through modeling or other analysis—that the actions chosen by the ministry result in Alberta being on track for achieving its targets for 2020 and 2050

Implications and risks if recommendation not implemented

Without an implementation plan that includes criteria to select and evaluate actions, the government cannot know whether the actions it is funding will help Alberta achieve its targets to reduce greenhouse gas emissions and whether it is doing so cost-effectively.

Page 44

RECOMMENDATION 3: IMPROVE MONITORING PROCESSES—REPEATED

We again recommend that for each major action in the 2008 Climate Change Strategy, the Department of Environment and Sustainable Resource Development evaluate the action's effect in achieving Alberta's climate change goals.

Implications and risks if recommendation not implemented

Without a clear process for monitoring its progress, the government cannot know if the actions it is funding are yielding the results it expects.

Environment and Sustainable Resource Development—Management of Sand and Gravel Resources

Page 51

RECOMMENDATION 4: ENFORCEMENT OF RECLAMATION OBLIGATIONS—REPEATED

We again recommend that the Department of Environment and Sustainable Resource Development improve its processes for inspecting aggregate holdings on public land and for enforcing reclamation requirements.

Implications and risks if the recommendation is not implemented

Without an effective inspection process, operators responsible for reclamation may not remediate the land disturbance or environmental damage they cause when extracting sand and gravel from public lands. There is a risk that taxpayers may have to bear the cost of remediation.

Page 52

RECOMMENDATION 5: QUANTITY OF AGGREGATE REMOVED—REPEATED

We again recommend that the Department of Environment and Sustainable Resource Development improve its systems to verify quantities of aggregate reported as removed by the industry from public lands so that all revenue due to the Crown can be determined and recorded in the financial statements.

Implications and risks if the recommendation is not implemented

Without verifying how much material operators remove from gravel pits, the department cannot plan for future needs, nor can it assure Albertans that they are receiving the royalties that are due for the province's sand and gravel resources extracted.

Health—Alberta Health Services—Contracted Surgical Facilities

Page 58

RECOMMENDATION 6: STRENGTHEN CONTRACT MONITORING—REPEATED

We again recommend that Alberta Health Services strengthen its process to monitor the performance of contracted non-hospital surgical facilities.

Implications and risks if recommendation not implemented

Without adequate systems to monitor and manage performance of contracted surgical facilities, Alberta Health Services may not achieve the service quality and patient outcomes it expects.

Transportation & Justice and Solicitor General—Commercial Vehicle Safety

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RECOMMENDATION 7: PROGRESSIVE SANCTIONS—REPEATED

We again recommend that the Department of Transportation enforce compliance by carriers who persistently fail to comply with rules and regulations.

Implications and risks if the recommendation is not implemented

Without timely and appropriate enforcement action taken on high risk carriers, commercial vehicles that are a potential risk to public safety may continue to operate and carriers may not believe there are meaningful consequences for their being non-compliant.

AUDITOR GENERAL
Alberta

Stand-alone Systems Auditing—New Audit

REPORT OF THE AUDITOR GENERAL OF ALBERTA

July 2014

Treasury Board and Finance—Results Analysis Reporting

SUMMARY

What results analysis means

Results analysis is a technical term. It is a process that managers use to check how well a program is working and to improve it. Managers examine program results and costs, and ask:

- What is working and what is not?
- Do actual results match the planned ones?
- Does the program achieve these results at the expected price?

If not, they adjust their efforts (what they do, how they do it, how much they spend) to improve results.

What we examined

Our audit objective was to assess the quality of the results analysis information publicly reported to Albertans through ministry annual reports. Results analysis requires public sector managers to integrate their financial and non-financial performance information into a clear and concise explanation of performance in relation to business plans. In identifying significant results (good, as well as any that are unsatisfactory) and through the analysis, there will be learnings for the next planning cycle.

What we found

The Alberta government has a well-established public performance reporting regime. Business plans and annual reports are prepared by each ministry. Standards exist for reporting both financial and non-financial performance information in ministry annual reports.

Through our audit, we found that:

- significant ministry matters (including priority initiative results) were not sufficiently identified or analyzed in ministry annual reports
- little guidance or training was provided to assist ministry management in their results analysis and annual report preparation activities
- results analysis reporting compliance against the annual report standards was not monitored

Much of the results analysis in each annual report's commentary described a broad range of the ministry's programs and activities. Given this, it was difficult to determine which aspect of operations senior management considered most important. Among the multitude of program descriptions, it was also difficult to identify insight from management that would explain the completion of priority initiatives and progress towards goals, which are essentially statements of desired results.

Financial information was generally not incorporated into the commentary. Financial information would help in assessing ministry results against plans and success in achieving results at a reasonable cost.

What needs to be done

Ministries need to focus on the identification and analysis of results to improve their reporting. Ministries need to clearly present an analysis of results for significant matters, including business plan priority

initiatives. Ministries also need to shift the balance in their annual reports – increase the reported analysis of results and decrease the number of programs and activities described without analysis.

Standardized guidance and training should be developed to direct and support improving results analysis reporting by the ministries. In addition, results analysis reporting compliance with the annual report standards should be monitored within each ministry and across government.

Why this is important to Albertans

Albertans, members of the legislative assembly and the government need sufficient and appropriate results analysis information that will allow them to assess if ministry programs are contributing towards meeting goals and achieving desired results.

Without such information from management, ministry performance and progress in achieving success with priority initiatives cannot be evaluated. The ability to identify lessons for operations and future planning may be compromised. Without public reporting that identifies and explains results each year, the government's accountability for results to Albertans is incomplete. Albertans need to be told of opportunities to improve performance.

A significant amount of staff resources go into the planning, preparation, review and approval of each ministry annual report, and the business plans that precede the report. Better value for this investment would be achieved by improving the analysis of results to help Albertan's understand the performance of their government.

AUDIT OBJECTIVES AND SCOPE

Our audit objective was to assess the quality of the results analysis information publicly reported to Albertans through ministry annual reports. This systems audit focused on processes for reporting results analysis in ministry annual reports. As part of our audit, we reviewed the primary outputs of these processes – the results analysis content in annual reports. We used the published content, in part, as a measure of the effectiveness of the results analysis reporting processes.

We examined results analysis processes and a sample of five ministry annual reports for the years ended March 31, 2012 and 2013. We also looked at the three-year business plans associated with these annual reports (2011–2014 and 2012–2015). Our sample of ministries reflects the breadth of activities and performance reporting processes within the government. The ministries were:

- Advanced Education and Technology
- Agriculture and Rural Development
- Municipal Affairs
- Seniors
- Transportation

We conducted our field work from December 20, 2012 to May 2, 2014. We substantially completed our audit on May 9, 2014. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set by the Chartered Professional Accountants of Canada.

This systems audit follows our 2012 audit of the reporting of performance measures variance analysis, a subset of results analysis. The 2012 variance analysis systems audit involved five different ministries (Culture and Community Services, Energy, Finance and Enterprise, Justice and Attorney General, Sustainable Resource Development). We gained insights into results analysis development processes

from the 2012 audit. Between the two audits, we examined aspects of public performance reporting in 10 ministries.

The ministry annual report standards indicate that there should be one comprehensive report for the ministry. Because of this, we did not examine the annual reports of any entities accountable to a ministry (e.g., universities and post-secondary institutions, various agencies) in our systems audit.

Within this report, we refer to our 2014 audit sample group of ministries as simply "the ministries." Our recommendation applies to all ministries.

BACKGROUND

Report users

Under most public sector governance models, the primary purpose of business plans and annual reports is accountability for results to an electorate or constituents—in our case, Albertans.

Business plans and annual reports are key documents of record under most public sector legislation. In Alberta, these two documents are tabled with the Legislative Assembly.

Ministry responsibilities

The ministry business plans and annual reports are the joint responsibility of the minister and deputy minister. These ministry documents are to provide a coordinated level of detail and analysis that complements the more broadly based government performance reporting. To this end, the Department of Treasury Board and Finance manages a set of business plan and annual report standards for the government and ministries.

Each ministry prepares, approves and publicly releases its own annual report. The Department of Treasury Board and Finance also accumulates financial and non-financial information from the ministries for overall government planning, budgeting and reporting. Accordingly, consistent business planning and annual reporting by the ministries (and separate organizations that are part of the ministries) is important to maintain efficient, quality planning and reporting for the government as a whole.

Accountability processes may benefit from transparency, acting in an open manner and sharing information. However, transparency alone does not create or achieve accountability for results.

To be credible, public performance reporting on results must be complete, fair and balanced. This means reporting on results that are good, as well as those less good or unsatisfactory. Reporting in this manner recognizes the responsibilities of governing, as well as a willingness to learn and improve. As part of acknowledging poor results, decision makers need to tolerate failure and recognize the effect of uncontrollable factors.

Cornerstones of accountability for results—business plans and annual reports

It is important that Albertans be clearly and consistently updated on the results achieved by government in relation to its planned and actual spending. The combination of legislatively required business plans and annual reports establish accountability for results cornerstones and communications tools to provide this information to Albertans.

Accountability for results

Albertans, their elected representatives and ministries need to know if government programs are achieving desired results. Is value being delivered for money spent? To answer this question, ministry annual reports need to describe and analyze results. The government must demonstrate whether the costs to achieve results and progress towards goals are reasonable.

The performance reporting by ministry management should indicate whether priority initiatives were completed and consider the impacts the initiatives and activities had on desired results. Management's analysis should also include whether changes should be made to improve plans and future results.

Financial statements and individual performance measures information in annual reports provide ministry annual report readers with the ability to compare some measurable actual results to planned results and recent prior year results. Results analysis reporting provides a sense of what led to the results, what did and did not work well, and what the cost was to produce the identified results.

We consider the role of financial information in the analysis to be important since achieving good results at any cost for all areas is not possible. Any assessment of results must be considered in relation to the budget allocated to the initiative and reasonable results expectations.

Integrating financial and non-financial performance information is central to meaningful reporting.[1] Results need to be analyzed in annual reports to determine whether value was received for money spent. This analysis should be considered in developing future plans.

For the public sector, there is no one bottom line measure to focus on in identifying and analyzing results. This differs from the situation for the private sector. For the government and ministries, many of the results analysis challenges arise from the broad range of mandates and service goals under the various reporting organizations. For the public sector, unlike the private sector, there are limited net income, earnings per share and market value metrics to fall back on. Performance in the public sector is far more concerned about delivering expected services than maximizing shareholder wealth, which can be assessed effectively using financial metrics.

When management can draw on sound and reliable information and performance measures that link to plans, budget and strategies, management has a powerful tool to motivate staff and communicate progress. It enables them to monitor progress continually and take corrective action as required. Our reference guide (see appendix) includes a results management framework designed to produce results in this manner.

A government that responsibly reports its own performance to its citizens has far more control over the manner in which information is disclosed and greater opportunity to describe its progress against plans directly with its stakeholders.

The complexities of public sector results analysis must be recognized and accepted, along with the responsibilities throughout the public sector for accountability for results. From there, it is important that quality results analysis occur throughout government and its related entities. In support of improving the quality of results analysis reporting, we prepared the reference guide which identifies a fairly standard,

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[1] Canadian Comprehensive Auditing Foundation, Public performance reporting principles—Taking public performance reporting to a new level, page 36, 2002.

common set of key attributes for the management commentary portion of public sector annual reports. The guide was developed from our research in advance of this audit to identify standards and practices followed by other organizations for results analysis reporting.

Senior management leadership plays an important role in effective results analysis reporting. This quote describes the importance of senior management leadership in effective reporting:

"You face a critical choice. You can treat [legislated requirements to report performance] as just another bureaucratic requirement to delegate to a subordinate, with at best perfunctory attention from you. If you do that, however, you will squander what is probably the most powerful tool available to you as a government executive."[2]

FINDINGS AND RECOMMENDATION

RECOMMENDATION 1: GUIDANCE, TRAINING AND MONITORING NEEDED

We recommend that the Department of Treasury Board and Finance, working with the Deputy Ministers' Council, improve:

- the guidance and training for ministry management to identify, analyze and report on results in ministry annual reports
- processes to monitor ministry compliance with results analysis reporting standards

Criteria: the standards for our audit

Ministries should have systems in place to meet standards for results oriented, public performance reporting in annual reports. Processes should be in place to:

- update and clearly communicate the standards for results analysis reporting
- monitor compliance with the standards for results analysis reporting
- identify significant matters, goals, priority initiatives and commitments warranting results analysis reporting
- assign and track costs to programs and activities aligned with goals, priority initiatives and commitments for use in results analysis reporting
- prepare integrated analysis and evaluative public performance reports in accordance with the standards
- approve and retain reliable and verifiable file documentation in support of the results analysis reported
- periodically assess results analysis reporting processes

In part, we used the government's results analysis content standards to guide our examination of management's commentary in the results analysis sections of the annual reports.

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[2] Kennedy School of Government—Harvard University, Get Results Through Performance Management: Executive Session on Public Sector Performance Management, 2001.

Our audit findings

KEY FINDINGS

- The results analysis sections in the five sample ministry annual reports described activities and programs, but there was limited information:
  - stating progress towards goals (desired results) and results achieved
  - analyzing and evaluating progress and achievements against business plan goals, commitments, mandates or priority initiatives
  - relating progress and results achieved to dollars spent

- Although the government has developed standards for results analysis and reporting, there was limited guidance and training to assist management in developing their commentary for the annual reports.

- Compliance with the results analysis standards for ministry annual reports was not consistently monitored by each ministry in our audit sample or externally monitored by the Department of Treasury Board and Finance.

Significant matters not sufficiently identified or analyzed

Background

In accordance with the Alberta government's standards, readers of ministry annual reports should be provided with analysis and insights from senior ministry management on significant events, key initiatives, strategies and critical issues.

The results analysis reporting is to be presented with reference to business plan activities for the reporting year in a manner that allows readers to evaluate the ministry's performance. The standards indicate that ministries are to present a balanced discussion of the ministry's overall results, including financial and non-financial performance. Significant variances for financial and non-financial results (between actual and budget or target amounts) are to be analyzed and explained.

Findings

In comparing the ministries' results analysis section content to the reporting standards, we concluded that ministry annual reporting is not sufficiently:

- focused on significant issues, including reporting on the results of priority business plan initiatives
- providing analysis and commentary that presents management's insights and permits readers to evaluate performance
- integrating non-financial and key related financial information

Ministry business plans generally specified three to six goals. Under each goal, three to five priority initiatives were usually listed. Some priority initiatives continue for several years, some will be changed or adjusted, and some will be added or deleted each year.

It was rare for management commentary to clearly refer to a priority initiative (or goal) and identify results, progress or achievements. This differed from what we anticipated—that progress or results achieved for priority initiatives (or at least a majority of the stated initiatives) would be clearly identified in annual reports. We also anticipated that the results identified would be accompanied by analysis and explanations of matters such as achievements, contributions towards meeting goals, actual costs in relation to those planned, and learnings that arose for future operational planning and strategy consideration.

The example below is intended to be illustrative and not to single out a particular ministry's reporting. Instances like the one below were the norm, rather than the exception.

The Ministry of Advanced Education and Technology identified a priority initiative to "Collaborate with the Alberta Innovates system, industry and other government organizations to identify new economic opportunities and to commercialize innovative technologies" in its 2011–2014 business plan.

As the stated initiative was to identify new economic opportunities and commercialize innovative technologies, we anticipated that there would be some indication of progress made in this regard. For example, there could be some discussion of the number of economic opportunities identified and the number of innovative technologies reaching or progressing to commercial status. Analysis of costs for the program or for particular projects, combined with estimates of the anticipated and actual economic benefits accruing to Albertans also seemed reasonable possibilities to expect for the reporting.

We did not find any commentary in the 2012 and 2013 annual reports that we could reasonably relate to this priority initiative or its results. We did find some general references to collaborative activities involving the ministry and technology development, though these sections did not identify results and were not accompanied by any analysis, explanations or evaluation involving financial or non-financial information. Ministry management indicated that some reporting for this initiative is in public reports prepared by several of the entities under it. This systems audit did not examine such entity reporting against ministry priority initiatives.

In the 2012–2015 business plans, each ministry had two or three of its priority initiatives check marked and identified as "mandate items." We anticipated this placed a higher priority level on these particular initiatives and would warrant more detailed results analysis. We found no difference in the level of results identification or explanations regarding results, progress or achievements for the mandate initiatives compared to non-mandate initiatives.

The reporting standards state that a ministry "should discuss the dynamics of ministry business and candidly analyze its performance with sufficient insight to allow readers to evaluate the ministry's performance." Within the multitude of activities and programs described in the annual reports, and the general lack of results analysis reporting, it was difficult to identify insights from management—a key component of the results analysis discussion requirements in the standards.

Among all the program and activities descriptions, we found that it was difficult to determine which aspects of a ministry's operations management considered most important and thus warrant more thorough analysis, explanation and evaluation. The ministries provided commentary on an average of 60 topics. At the extreme, one ministry's annual report had distinct commentary on over 100 programs, activities, events and other topics. It was difficult to discern if management considered each of these items significant. We anticipated that a few of the more significant ones would have been analyzed at a reasonable level of depth using financial and non-financial information, accompanied by some insightful explanations and commentary. Where there was analysis, it was often limited or stated in fairly general terms.

In the area of financial analysis, we did not identify many instances where financial statement expenses, significant event costs, or priority initiative and program costs were analyzed and discussed in relation to business plans, significant programs or key initiatives.

Within the program and activities descriptions, management's commentary generally did not relate results to dollars spent. To do so requires that the analysis and reporting integrate financial and non-financial information—something that we did not often observe. Dollar amounts were sometimes included. However, they were essentially presented as standalone facts. For example, grant and funding amounts were sometimes listed, though without any commentary regarding results achieved for the expenditure.

As part of the results analysis, we examined variance analysis reporting. We were looking for explanations where the current year amount differed significantly from the budget or target for the current year, the prior year result or the recent trend (the average of results for the four prior years).

Although performance measures variance analysis was improved in 2013 compared to 2012, it was still limited. For the 37 measures listed in our audit sample for 2012-2013, we identified 22 significant variances and found explanations for 13 (60 per cent) of the variances. This showed improvement over 2011–2012 where we identified 25 significant performance measure variances and found explanations for seven (28 per cent) of those variances.

Limited results analysis guidance for management

Background

The Department of Treasury Board and Finance manages the annual review and update of the ministry annual report standards. All ministries must follow these reporting standards. Instructions to ministries on results analysis discussion content and management perspective are described in a concise one-page standards document.

Findings

There is an opportunity for the Department of Treasury Board and Finance to improve guidance to ministries on the analysis of results included in ministry annual reports. While standards exist, there is limited guidance to assist with the preparation of management commentary. The primary form of guidance is through the standards themselves, which are articulated in general terms. For example, one of the standards is that "ministries should present a balanced discussion of the ministry's overall results and performance (financial and non-financial)."

Ministries hold their own planning meetings to start their annual reporting process. From that point forward, the ministry processes to draft and develop their results analysis and annual reports vary. The documentation prepared and retained to support the results analysis also varies between the ministries.

The Department of Treasury Board and Finance has established a working group where ministries can jointly discuss the annual report standards. We were advised that through this working group, the department has hosted some workshops over the years for ministry staff involved in the preparation of business plans and annual reports. Articles and other publications on various aspects of public performance reporting are periodically distributed to these staff groups.

Results analysis reporting compliance not monitored

Background

The Department of Treasury Board and Finance has a well-established role involving the consolidation of the financial statements of the ministries and other government entities. The department works to ensure that the entity statements are prepared on a consistent basis to permit the annual release of the government's consolidated financial statements.

The department has a similar centralized and coordinating role for ministry business plans and compiling information for the government's budget and business plan. The department has a process to review each business plan, providing timely comments directed at ensuring the information is reported in accordance with the government's standards for annual business plans.

Findings

Monitoring for compliance with standards can be improved. This finding applies to the Department of Treasury Board and Finance and the ministries themselves.

The Department of Treasury Board and Finance does not have well-established processes directed at reviewing ministry results analysis commentary for compliance with reporting standards. This is different from its processes relating to ministry financial statements and business plans.

We found that ministry processes do not plan and check for compliance against the results analysis content requirements for annual reports. More specifically, the finalization and approval processes for the results analysis section material in ministry annual reports were not designed to check that the results analysis reporting objectives or content requirements were met. In our July 2012 systems audit report, Analyzing Performance, we had a similar finding for a sample of five different ministries. For that audit we reported "senior management approval of the annual report was for the document as a whole, without any detailed staff declaration or sign off that all specifics that should be in the annual report had been appropriately included."

Implications and risks if recommendation not implemented

Meaningful results analysis reporting is critical to the government's demonstrating its stewardship of Alberta's resources. In the absence of quality results analysis reporting, Albertans will not receive sufficient information to assess whether ministry programs are achieving desired results. Further, there will be insufficient information reported to evaluate whether the costs to achieve the results are reasonable.

Appendix

RESULTS MANAGEMENT AND ANALYSIS—REFERENCE GUIDE

Overview

This reference guide presents the following:

- a results management framework directed at continuous improvement and achieving cost-effective results
- an outline of key attributes of meaningful results analysis prepared by management for inclusion in public performance reports

Results analysis is a technical term referring to a process to check how well a program is working and to improve it. Management examines program results and costs, assessing what is working and what is not. Actual results are reviewed against the planned ones with reference to the actual and expected price. This may lead to future plans, efforts and spending being adjusted to improve results.

The results analysis terminology used in Government of Alberta annual reporting refers to the narrative, non-financial statements portion of ministry annual reports.[3] Results analysis reporting is challenging to prepare because the public sector does not have the metric of profit and loss. Common, essentially equivalent terms used in other sectors and jurisdictions for this narrative component include management commentary, management discussion and analysis (MD & A) for public companies and performance report. The narrative portion of the annual report may include summary tables, statistics and other forms of accompanying information.

Purpose

In 2014 our office completed a systems audit to assess the quality of the results analysis information publicly reported to Albertans through ministry annual reports. As part of the audit, we researched standards and practices for preparing management commentary in the annual reports of other organizations. This research provided background information in advance of commencing our audit and was useful in assessing our audit findings.

This reference guide provides some insight on a set of key results analysis attributes we identified for quality, meaningful performance reporting.

- The attributes are presented as a potential framework of public reporting principles.
- The information presented may be useful to preparers and readers of performance reports.
- It may also be useful in reviewing and updating the results analysis content component of the ministry annual report standards, and developing supplementary guidance to assist preparers.

Some information on more general, non-results analysis sections that may be useful to include in an annual report is also included at the end of this reference guide.

[3] Each Government of Alberta ministry annual report includes standardized accountability and management's responsibility for reporting statements (signed by the minister and deputy minister respectively), a brief message from the minister, the results analysis section and financial statements. The latter two items make up the majority of the annual report material.

Research documents

In our research, we reviewed information from a variety of sources (Canadian, American and other international), including:

- professional and regulatory standards and pronouncements
- reporting principles and guidance documents for preparers
- academic writings and other published articles
- annual reports of organizations outside of the government of Alberta
- internal performance reporting work plans and practice policies
- annual report awards programs

These sources were directed at reporting entities from the following sectors:

- provincial governments and selected ministries outside of Alberta
- federal governments (Canada and other international) and selected departments
- not-for-profit organizations
- public companies

Results management framework

Below is our view on the three key building blocks to an effective results management framework.

Governance—A process and structure that brings together capable people and relevant information to achieve results (the cost-effective use of public resources).

Oversight—The job of:

- being vigilant
- checking that processes and systems, including the accountability for results system, are working well
- signaling preferred behaviour

all in the pursuit of desired results.

Accountability for results—The obligation to show continually improving results in the context of fair and agreed on expectations. For Albertans to receive value for money, all those who use public resources must:

- set measurable results and responsibilities
- plan what needs to be done to achieve results
- do the work and monitor progress
- report on results
- evaluate results and provide feedback (results analysis)

Results management framework

Governance, oversight and accountability processes directed at results are the foundation of a sound managing for results process. All three parts work together to produce results.

Information from each step in the cycle should be communicated between levels and departments with a results oriented focus. Evaluative feedback should be provided throughout the organization. Results should be monitored, plans adjusted and expectations periodically re-set as part of an ongoing continuous improvement approach to managing for results.

The whole purpose of the framework is for management to learn from what they have done so that they can do better in the future.

A framework of results analysis reporting principles—key attributes

In carrying out our results analysis research, we looked for common themes, trends and options in current performance reporting requirements and practices.

We grouped our summary of key results analysis attributes under the following categories—objectives, focus, integration and credible information. There is also a set of other attributes that are communicative and administrative in nature. This format presents the attributes as a potential framework of public reporting principles. Each of these five categories identifies an overriding aspect of results analysis development that should be covered off as part of meeting the individual attribute requirements.

The attributes are inter-related and have features reflecting what should be reported and how to report.

Objectives

The objective of the performance reporting development and approval process is management's commentary in the entity's annual report. Performance reporting objectives are generally framed from the perspective of what the primary reader needs.

Present senior management's perspectives

Regardless of the source of information or target sector, the narrative commentary in the annual report must be a review of significant activities, results and outcomes. This should be accompanied by an evaluation of the impact on future plans. Both of these aspects of the commentary are to be presented "through the eyes of management," or more specifically "through the eyes of senior management."

Senior management's involvement is particularly important at the planning stage. Significant matters warranting explanation in the report (plus messages and themes to be emphasized) should be established early with reference to business plans, commitments and key activities underway. Projected and forecast year-end financial information can be used in preliminary analysis supporting early drafts.

Senior management should stay involved in reviewing the results analysis commentary as it evolves, checking that the drafts remain true to planning decisions, as well as the annual reporting objectives and standards. Final sign-off by senior management should be documented through a checklist specifying that each requirement in legislation and the standards has been met.

Permit performance assessment

The commentary and associated information should be sufficient to permit readers to assess performance for the reporting period, generally the preceding fiscal year. To a certain degree, this requires that management evaluate and report on its own performance in key areas of previously published business plans, presenting related information on which their assessments are based.

As part of assessing the usefulness of the information to be reported, management should have a clear understanding of the primary party to whom the annual report is directed. For a public sector entity such as the government of Alberta, the primary reader is usually specified in legislation or regulation. Usually, this is an elected or appointed body responsible for the organization. For publicly traded companies, the direct reporting is by management to its board of directors.

For both sectors, the primary reader can be considered an informed user, which dictates that the analysis and commentary can be presented at a reasonable level of sophistication, without being overly technical or using jargon. It is through the use of clearly presented analysis and plain language (an "other" attribute – see separate section below) that the commentary is also useful to secondary user groups (e.g., the public, ministry staff) and other stakeholders (e.g., media, researchers) for their own assessments of performance.

Focus and approach

The focus and subject matter of each year's performance report should be well planned. For each issue, event or aspect of the business to be reported on, there is a general framework of steps that should guide the report's content.

Report on significant issues

Each ministry, and certainly the government as a whole, is involved in a broad range of ongoing and project oriented activities. When planning the annual report, certain activities should be identified as significant or material for results analysis reporting purposes.

Some activities will likely have already been identified in a business plan as key to progressing towards the achievement of a stated goal (e.g., through select priority initiative activities, commitments, mandated change or other initiatives). Heading into the annual report planning process, these business plan items can be considered the starting list of potential results analysis areas for the report.

Decisions involving what is a significant issue involve judgement and discussion within the senior management group. Input from other staff in advance of final decisions can be valuable to the process. A decision that a particular activity or an issue is not significant for results analysis reporting does not mean it is unimportant to the organization's operations.

Present in-depth analysis of significant issues
For each significant issue identified for results analysis, there should be a reasonable depth of analysis that includes discussion on plans, goals, objectives, resources and outcomes. If there are more significant issues for a particular year that warrant results analysis, the level of rigour and reporting for each should not be compromised for reasons of space or economy.

The reporting of results and outcomes needs to be centred on core objectives, goals, strategies and commitments. The public business plan should have laid the groundwork details and a framework for the reporting to follow. Reporting on progress and achievements against particular plans may extend over several annual reports.

Identify significant achievements, results and outcomes
Management's analysis and evaluation of the organization's performance, expressed both qualitatively and quantitatively, should be at the heart of the results analysis package. This mindset should be at the forefront of many of the processes and systems used by senior management. From there, the information should be incorporated into the results analysis planning, development and approval processes.

Evaluate results and outcomes
Management must evaluate its performance, results and outcomes achieved so that others may evaluate management's performance. Within an accountability model, this step is perhaps the most difficult to complete and report publicly.

Setting challenging goals and targets carries the risk, even with the best effort, that some goals and targets will not be met. With an increased focus on results and outcomes, it is critical the evaluation be balanced. As part of the follow-up to the evaluation, the identification of the learning that arose and identifying plans to implement the learning, decision makers need to tolerate failure and recognize the effect of uncontrollable factors.

Link management's commentary to business plans, strategies and commitments
The results analysis reporting should be clearly linked to the business plan, as well as any significant commitments that may have been subsequently presented for the year. A reader should be able to readily refer back to the associated business plan as part of following up on particular section of results analysis reporting. If starting from the business plan and a particular priority initiative or plan item, a reader should be able to readily locate the annual report sections where progress and achievements are analyzed and reported. Tables of concordance showing plan items and the page location for the reporting can be a useful tool for annual report preparers and readers (assuming the table is included in the report).

Disclose management's key focused reporting decisions
The basis for significant judgements and assumptions should be disclosed, including those involving the selection of the critical areas on which the results analysis is focused.

Significant changes from plans (e.g., changes to or the dropping of a business goal or plan priority initiative) should be explained to get public reporting closure. In these cases, timing of the decisions may be such that it is appropriate to outline the shift of resources to a new area. While some of these changes may be explained more fully in a business plan, it is good to outline the significant shifts in the report. The inclusion of summarized business plan information will help ensure the results analysis can "stand alone" as a document and will assist readers of the annual report.

Integrated analysis and evaluation
For significant issues, management's results analysis and evaluations should incorporate an in-depth mix of different types of information.

Depending on the significant issue being analyzed and evaluated, certain attributes may be more or less relevant to the particular section of integrated management commentary. Similarly, the depth of discussion associated with a particular attribute is likely to vary from one significant issue to the next.

Financial and non-financial information
Financial and non-financial information should be used in an integrated manner in management's commentary to explain the results achieved for the dollars spent. Financial information may be from the financial statements in the annual report or be more specific financial data that is part of a larger financial statements amount. Significant current year variances from business plan budgets/targets, and recent financial statement results (for performance measures, key performance indicators and financial operations) should also be explained in a similar manner.

A subset of management's broad based commentary should be financial statements discussion and analysis. This commentary is generally aligned with significant financial statements line items. It is often presented as a separate section in the report. The discussion and analysis can also be integrated within the body of management's commentary.

Financial statement amounts or notes should not be merely repeated in management's commentary without adding explanation, insight, analysis or evaluation. To help avoid the simplistic repetition of facts from the statements or notes, include the use key variables, statistics and performance measures to help explain operational results and outcomes. The use of easy to follow tables accompanied by concise performance and outcome explanations may be a useful format for some matters.

Key business drivers information
For any organization, there are key external and internal performance drivers that will impact the successful implementation of business plans and strategies to achieve goals. Risks and uncertainties may affect performance and outcomes. There may be key relationships to be established or maintained to make progress. Key performance indicators may be used by management as part of monitoring progress. Key driver considerations may vary between different departments in the business. These key business driver considerations should be insightfully communicated to results analysis readers "through the eyes of management."

Comparative information
Comparative information can be used as part of commenting on performance trends and evaluating current results. Care should be taken to establish that the information (e.g., year to year data, externally

prepared material) has been calculated in a comparable manner. Some extra comment or disclosure may be required to explain the differences.

Forward looking implications
The issuance of a ministry or government annual report is part of a public performance reporting continuum. A significant portion of the results analysis will look back at the recent year's performance. This analysis should be connected to the near, medium or longer term future, particularly where current results and outcomes significantly affect previously communicated plans and strategies. Overall reporting is improved when such changes are identified on a timely basis in the annual report, rather than waiting for the next business plan. The next business plan may then refer to the earlier annual report or expand on the impact first identified in that annual report.

Disclosure supporting the integrated reporting
The integrated analysis and commentary should be meaningful and insightful. Background information should be concisely presented, providing sufficient context for the analysis and explanations. This is particularly important when incorporating the business drivers, as well as strategic and forward looking information.

The basis for significant judgements and assumptions should be disclosed, including those involving new or changed business relationships, strategies or directions, reorganizations, management evaluations and other critical areas on which the results analysis is focused. Key terms may require explanation or be defined. A glossary is often an efficient and clear way to present this information. External source references may a require disclosure.

Credible information
Management has a responsibility to publicly report on its activities and performance to public sector constituents or taxpayers in a complete, fair and balanced manner. Management must present results analysis information that is credible in its own right, regardless of whether all or a portion of the underlying support has been audited. Management's commentary should be supported by documentation that permits independent verification (as part of good practices, plus in case independent examination is required in advance of or after release of the annual report).

The mere release of audited financial statements by a ministry is not adequate accountability for results. The statements should be accompanied by insightful and meaningful results analysis commentary and discussion from senior management.

Accountability processes may benefit from transparency, acting in an open manner and sharing information. However, transparency alone does not create or achieve accountability for results.

Balanced and complete
Balanced reporting, commenting on significant positive and negative aspects of performance, enhances the credibility of the information. Management should responsibly prepare and finalize a results analysis commentary package that is fair and balanced, and aligned with the performance reporting objectives for annual reports. This part of the report must be complete and in accordance with standards.

To ensure balanced evaluation, the reporting framework needs to allow for the public reporting of failure to achieve planned results. Management should report candidly and explain the effect of uncontrollable factors. Reporting in this manner recognizes the responsibilities of governing, as well as a willingness to learn and improve. Lessons learned should be described as part of the results analysis.

Senior management's ownership of a fair and complete results analysis package within the annual report should be reflected in an accountability statement. In addition to the fair and complete assertions, the statement should also specify the primary party to whom management is reporting (e.g., elected officials, board of directors, shareholders). The combination of these points should help reinforce senior management's primary accountability relationship and improve due diligence throughout their results analysis preparation processes. Incorporating these steps into current processes may help improve compliance with the reporting standards.

Verifiable
The results analysis commentary must be accurate. The underlying information supporting the commentary should be the product of good management systems and processes. The analysis should be documented and retained for reference, as well as for general archived recordkeeping purposes. Decisions involving reporting selections and judgements included under the basis of reporting disclosures should be clearly documented, usually with more detail than in the annual report.

Any accountability or management responsibility statements in the annual report should be supported by senior management signing off on a fairly detailed, specific requirements checklist, as well as the final results analysis text.

The nature of the documentation and related processes should recognize the possibility that the results analysis, in whole or in part, could be audited. The potential for public access to this information should be clearly understood by each ministry.

Other attributes
There is a set of general communications and business considerations that should be applied to all aspects of public organization reporting, including results analysis in annual reports.

Clear communication
The results analysis information should be concise and understandable. As noted earlier, the interpretation of quantitative information (e.g., statistics, tables, charts) is enhanced by narrative explanations.

Reasonable cost
With good information and planning, the supplementary costs to prepare the results analysis can be kept at a reasonable level.

The information used to prepare the results analysis should be a product of the processes used by management in running the business. Performance information should be monitored throughout the year. Planning for the year end results analysis should be a key by-product of the monitoring and other management control processes.

Using this information, the analysis and evaluation, plus development of the results analysis narrative, should be completed on a coordinated basis by individuals with the appropriate knowledge of the business, skills and perspectives.

Timeliness
Annual reports should be published on a timely basis each year to assist report users to make timely assessments and decisions. Releasing an annual report to the public within two to four months of the year end should be reasonable and workable for annual report preparers. Public companies generally release their annual report two to three months after year end.

As is the case with maintaining reasonable preparation costs, planning is key to timely reporting. Much of the planning, including outlining the framework for the report and the analysis requirements, can be completed in advance of the year end.

Planning, preliminary analysis and drafting of the report can proceed using forecast and projected financial information. Final figures can be updated towards the end of the process, recognizing that management's assessments and evaluations in their commentary are unlikely to be significantly affected by any late adjustments to finalize the financial statements.

Access
The primary party to whom management reports under a business accountability relationship (e.g., elected officials, board of directors, shareholders) will be delivered their copy of an annual report in a suitable format – either hard copy or electronically.

Most other stakeholders will have to search for the annual performance report or request it. In this age of electronic communications, an organization's home internet page is generally where the search begins. Accordingly, the organization's home page should be where an individual can fairly intuitively and quickly locate (or request) current and past annual performance reports for an organization (i.e., with a minimum of unsuccessful clicks).

Results analysis components—other

The results analysis should include some financial statements discussion and analysis (FSD & A) and lessons learned commentary.

The presentation of each in a separate section may be easier for readers to follow. Presenting FSD & A as a separate section within results analysis may be more workable for preparers since different skills, perspectives and access to information for the analysis are likely. The lessons learned may be at the end of the results analysis commentary for each significant issue discussed or in a separate, summary section. Performance measures and indicators information and analysis may also be presented through some combination of the analysis of significant issues and a separate section in the results analysis.

Financial statements discussion and analysis
Financial statements discussion and analysis is a subset of management discussion and analysis. This commentary is generally aligned with significant financial statements line items. It is often presented as an identifiable section in the annual report, rather than mixing these discussion items throughout the rest of management's commentary.

FSD & A expands on and explains information found in the financial statements and notes disclosures. This information should not be merely repeated.

Explanations for significant current year amount variances from budget, prior year or recent trends are a key component of FSD & A, providing background information that the statements do not provide. A variance may be wholly or partially related to issues or events identified for results analysis discussion. Cross referencing between the results analysis and FSD & A of the issue is preferred to duplicating the discussion. One section will likely to have most of the analysis.

Some key management accounting metrics, ratios or schedules may be useful for the FSD & A. Detailed breakdowns of key financial figures (e.g., by programs, special initiatives or projects), with comparative information in a table, supplemented by some commentary may provide good insights into operating

results and performance. Comparisons with financial indicator or other external data may also be incorporated.

Lessons learned
Within most accountability and continuous improvement business models lies the concept of "lessons learned." Lessons learned involve follow-up analysis and action from an initial lessons identified step. Without follow-up action, the same lessons may be identified every year.

The identification step will generally involve some reflection on or evaluation of performance. The learning points may be positive or negative. Specific recommendations for change, rather than just observations, should come from this analysis. The learning and the recommendations should be actionable and incorporated into future planning.

Performance measures and indicators
Public reporting information and results analysis should include the use of performance measures. Performance indicators may also be used within the results analysis report. Generally speaking, measures are for areas directly under the control of the organization. Indicators are for areas that can only be indirectly impacted or influenced by the organization.

For public performance reporting, measures directed at measurable outcomes or results should be used, although other types of measures may be used by management in supporting roles. Each measure should be aligned with determining progress towards or achieving goals.

Performance measures should be used as one of the tools for results analysis and evaluating performance. A key to being able to use a performance measure effectively lies in the rigour of the measures identification process followed by management and the relevance of the measure (or set of measures). Each measure should be accompanied by an annual target setting, measurement, analysis and evaluation process. Explanations for significant variances are generally required public performance reporting items.

Performance indicators are useful to track trends in the operating environment and identify future potential problem areas.

Other annual report sections

Management may choose to include some non-results analysis type information in the annual report. Updates on government activities and program descriptions may be presented in summaries (without analysis). Special events and initiatives occurring in the year, along with capital expenditure updates may also be outlined. Unique or special (but less significant) programs or activities may be profiled. Legislative changes and policy development could be outlined in year-in-review or year-at-a-glance summaries (perhaps with columns for a description, reason for the change or plan, and future impact).

Separate sections for these non-results analysis items could be specified in the annual report standards as required inclusions or available for discretionary use by a ministry. These updates could be provided in summary form, perhaps with a website reference or link to more comprehensive information outside the annual report. Other options may also be appropriate as part of the overall annual report package.

AUDITOR GENERAL
Alberta

Stand-alone Systems Auditing—Follow-up Audits

REPORT OF THE AUDITOR GENERAL OF ALBERTA

July 2014

Energy—Alberta's Bioenergy Grant Programs Follow-up

SUMMARY

In 2008 we audited the bioenergy grant programs the Department of Energy administered. We made a recommendation to improve the application and reporting processes related to evaluating environmental impacts.[1]

Our 2013 follow-up audit concluded that the department still did not require grant applicants to demonstrate their product's positive environmental impact relative to comparable non-renewable energy products. We did not repeat the original recommendation because the grant programs that were part of the 2008 audit[2] were no longer accepting applications. We also identified areas in which the department could improve the ongoing credit program and the reports it requires for all three programs as they relate to emission reductions. We made two recommendations to the department in our July 2013 report.[3]

Why this is important to Albertans

Bioenergy is one of the elements within the climate change strategy that will assist in reducing emissions. If the bioenergy projects the government funds do not reduce emissions as expected, the government will have to reduce emissions in other areas to achieve its targets.

AUDIT OBJECTIVES AND SCOPE

Our audit objective was to determine if the department had implemented the two outstanding recommendations from our July 2013 report.

We conducted our field work from January to April 2014 and substantially completed our audit on May 14, 2014. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set by the Chartered Professional Accountants of Canada.

BACKGROUND

In 2006 the Government of Alberta committed to its Nine Point Bioenergy Plan.[4] The plan included grant programs[5] to encourage investment in bioenergy production in Alberta and to develop Alberta's biofuel capacity and infrastructure for biofuel products distribution. Alberta's Bioenergy Policy Framework requires grant recipients to assess the environmental impact of bioenergy programs. Bioenergy is one of the elements that the government expects will reduce emissions in Alberta and help the province meet the targets it set in the climate change strategy.

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[1] *Report of the Auditor General of Alberta—October 2008*, no. 25, page 255.
[2] Biorefining and Market Development Program and Bioenergy Infrastructure Development Program
[3] *Report of the Auditor General of Alberta—July 2013*, no. 14, page 111 and no. 15, page 112.
[4] Alberta's Nine Point Bioenergy Plan http://www.energy. gov.ab.ca/pdfs/BioE9pointPlan.pdf, 2006.
[5] Biorefining and Market Development Program, Bioenergy Infrastructure Development Program and Bioenergy Producer Credit Program

FINDINGS

Clarify reporting guidelines for grant recipient reporting—implemented

The department's guidelines require grant recipients to annually demonstrate that the bioenergy products they produced had lower emissions than those from comparable non-renewable energy products. The guidelines require that grant recipients calculate emissions on a lifecycle basis.

Establish adherence to nine point bioenergy plan for the Bioenergy Producer Credit Program—implemented

In 2013 the department implemented processes to ensure that grant recipients comply with its requirement to annually demonstrate that their products resulted in lower lifecycle emissions than those from comparable non-renewable energy products. Our testing found these processes to be effective.

The department has not accepted new applications for credit program grants since 2011. Existing grant recipients annually apply for grants based on their production.

Environment and Sustainable Resource Development—Climate Change Follow-up

SUMMARY

Background

Climate change has far-reaching impacts on Alberta's environment, economy and infrastructure, and on human health. With the release of its climate change strategy in 2008, the Government of Alberta recognized the need to reduce greenhouse gas emissions in Alberta.[1] The strategy sets Alberta's emissions reduction targets for 2020 and 2050.

In 2008 we audited systems the government used to develop and report on the strategy. We concluded that the targets were based on an economic model that anticipated actions that were not part of the strategy. We also concluded that the Department of Environment and Sustainable Resource Development did not have a plan that identified specific actions to meet the targets and monitor the results.

In 2009 we audited the department's implementation of the *Specified Gas Emitters Regulation*,[2] a key component of the strategy. The *SGE Regulation* sets emission intensity limits for facilities that collectively produce half of greenhouse gas emissions in Alberta.

What we examined

We followed up on three of the ten recommendations from our 2008 and 2009 audits: planning to implement the strategy, monitoring performance against its targets, and reviewing technical reports the facilities submit under the *SGE Regulation.*[3]

What we found

The department has not implemented our recommendations on planning and monitoring its climate change strategy. It has implemented our recommendation on reviewing facility reports.

We found no evidence that the department regularly monitored performance between 2008 and 2012 against the 2008 strategy targets. The department is only now preparing its first public report on the progress made on its 2008 strategy. Four years after the release of the strategy, the department completed an implementation plan with the intention to update the plan annually. The plan identified government-funded actions to reduce emissions. It also estimated the reductions, timing and allocated resources for each action. However, the plan has not been updated since it was first developed. Also, the plan lacked the information necessary to monitor performance of actions and the government's overall progress with reducing greenhouse gas emissions and meeting its strategic targets. The department's processes to ensure the accuracy and completeness of the plan's data were ineffective.

The department has not yet developed criteria for selecting new climate change actions and evaluating existing ones.

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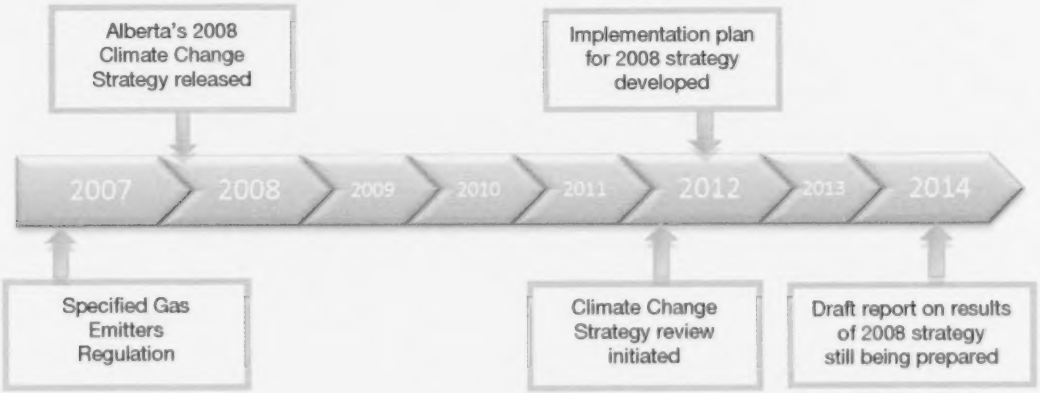
[1] Alberta's 2008 Climate Change Strategy, http://environment.gov.ab.ca/info/library/7894.pdf
[2] *Climate Change and Emissions Management Act*, S.A. 2003, Alberta Regulation 139/2007.
[3] *Specified Gas Emitters Regulation*, Alberta Regulation 139/2007, Section 11 (1).

Despite a lack of effective planning and monitoring, by 2012 the department recognized that Alberta was not on track to meet its 2020 target.[4] It was apparent to the department that the expected reductions from carbon capture and storage will not be achieved. Carbon capture and storage in the 2008 strategy represents the majority of forecasted emission reductions (see appendix). However, with only two carbon capture and storage projects planned, the total emissions reductions are expected to be less than 10% of what was originally anticipated.

Failure to stay on track to meet the target, as well as the September 2014 expiry and planned update of the *SGE Regulation,* prompted the government to review its strategy. The review included an analysis of performance against the strategy targets. The outcome of the review—which includes economic modeling and stakeholder consultations—will be to propose changes to the climate change strategy and *SGE Regulation*, for the consideration of government decision makers.

Overall, the department's progress implementing our recommendations since 2008 has been slow. This pace does not reflect the significance that effectively managing climate change has for the economy and environmental performance in Alberta and in Canada. Effective planning and regular performance monitoring will continue to be key to Alberta's success in effectively managing climate change.



Why this is important to Albertans

Planning for and monitoring the status of key actions and overall progress toward emissions reduction targets is key to the success of Alberta's climate change strategy. Because of the environmental, economic and social significance of climate change, Albertans need to know how well the government's strategies for reducing emissions are working.

[4] Reduce emissions by 50 Mt below business as usual. Alberta's 2008 Climate Change Strategy. http://environment.gov.ab.ca/info/library/7894.pdf

AUDIT OBJECTIVES AND SCOPE

Our audit objective was to determine if the department has implemented our recommendations related to:

- planning[5]
- monitoring processes[6]
- technical review[7]

We conducted our field work from July 2013 to March 2014 and focused on the department's actions since our 2008 and 2009 reports. We conducted our audit in accordance with the *Auditor General Act* and the standards for assurance engagements set by the Chartered Professional Accountants of Canada.

FINDINGS AND RECOMMENDATIONS

Planning—repeated

RECOMMENDATION 2: IMPROVE PLANNING—REPEATED

We again recommend that the Department of Environment and Sustainable Resource Development improve Alberta's response to climate change by:

- establishing overall criteria for selecting climate change actions
- creating and maintaining an implementation plan for the actions necessary to meet the emissions intensity target for 2020 and the emissions reduction target for 2050
- corroborating—through modeling or other analysis—that the actions chosen by the ministry result in Alberta being on track for achieving its targets for 2020 and 2050

Background

In our 2008 audit we found that the government set measurable goals and targets but the department lacked evidence that the actions in the strategy would actually achieve them. The strategy needed an implementation plan with deadlines and monitoring in order for Albertans to have confidence that Alberta could achieve the targets cost-effectively. We also reported that the department had not developed overall criteria for selecting actions to meet the targets. For example, there was no established maximum amount the government would pay per tonne of emissions reduction.

The strategy identified the following targets:

- 2010 – reduce emissions by 20 Mt (meet emissions intensity target established in 2002 plan[8])
- 2020 – reduce emissions by 50 Mt below business as usual[9]
- 2050 – reduce emissions by 200 Mt below business as usual and 14 per cent below 2005 emissions

Within the strategy, the government expected Alberta's absolute emissions[10] to increase until 2020 and then begin to decline (see appendix). The economic modeling done in 2008 to develop the current strategy targeted Alberta's emissions to be as follows:

- 2010 – 235 Mt
- 2020 – 260 Mt
- 2050 – 184 Mt

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[5] *Report of the Auditor General of Alberta—October 2008*, no. 9, page 97.
[6] *Report of the Auditor General of Alberta—October 2008*, no. 10, page 100.
[7] *Report of the Auditor General of Alberta—October 2009*, page 45.
[8] Albertans and Climate Change: Taking Action. http://environment.gov.ab.ca/info/library/6123.pdf
[9] Business as usual means emission levels in the absence of any new government policy.
[10] Absolute emissions are the total greenhouse gas emissions produced, usually measured annually.

To achieve these targets, the government put in place policies and actions aimed at reducing greenhouse gas emissions. Carbon capture and storage was a key action expected to provide 70 per cent of the 2020 and 2050 reductions.

In our 2008 audit we found that the department had not decided how it would evaluate free rider[11] and rebound effects[12] when forecasting emissions from incentive programs.

Criteria: the standards for our audit
The department should:

- set measurable goals and targets for its approach to climate change and should plan how it will achieve them
- assess cost-effectiveness and consider social, economic and other environmental impacts when choosing projects to fulfill the strategy
- consider free rider and rebound effects when forecasting emissions reductions it expects from incentive programs
- put in place an implementation plan for the strategy that indicates, for each focus area, the major actions required and each action's:
  - deliverables and timing
  - required resources
  - planned effect towards meeting Alberta's emissions targets

Our audit findings

KEY FINDINGS

- The department completed an implementation plan in 2012. However:
  - the plan lacks key information needed to monitor progress
  - the plan has not been updated annually as intended
  - processes to ensure accurate data and no double counting of reductions were ineffective
- Criteria for selecting new climate change actions and evaluating existing ones have not been developed.

Implementation plan
In 2012 the department completed an implementation plan that identified actions the government was taking and funding to reduce emissions. The plan also estimated reductions, timing and resources allocated for each action. This was an important step towards effectively implementing the strategy; however, it was completed four years after the 2008 strategy was released, was not subsequently updated, and had problems related to design and accuracy.

As part of its plan the department required other departments[13] responsible for each action to provide data and estimates about the resulting reductions in greenhouse gas emissions and the processes they used to monitor entities' progress with government-funded actions. The department provided a template to the other departments to help ensure the information they gathered was consistent and complete. The department also required designated authorities at each of the other departments to validate the

[11] When the government offers a financial incentive to buy a product or service, everyone pays the lower price even though some people would have bought the product or service without the price incentive. Those who pay the lower price even though they would have paid the higher price are called free riders. If evaluations of incentive programs do not consider these effects, they may overestimate the effect the incentives had on reducing emissions.

[12] Energy savings from improved efficiency are sometimes less than forecast because higher efficiency can lead to increased use. If evaluations of incentive programs do not consider these effects, they may underestimate future energy use and overestimate emissions reductions.

[13] These were other Alberta government departments – Transportation, Municipal Affairs and Energy.

information. The department intended to use this reporting process to update the implementation plan annually.

However, the department did not update the implementation plan in 2013, thus limiting its usefulness for monitoring and reporting on performance of actions.

Implementation plan—design and accuracy
We found deficiencies in the design of the implementation plan. It lacked key information necessary to monitor progress with specific actions. It also lacked the information necessary to monitor the province's overall progress toward the 2020 and 2050 annual reduction and absolute emission targets. For example, the plan did not consider the annual reductions each action actually achieved and it presented forecasted reductions inconsistently—as annual reductions for some actions and as cumulative for others. The plan also omitted comparison of the total annual reductions from all actions to overall targets.

The department stated that it used an informal process to review the plan for accuracy and completeness. We found the review to be ineffective. We examined the data for a sample of actions and found that the data in the plan was not always consistent with the information the other departments submitted to the department.

Implementation plan—potential for overestimating reductions
The plan showed reductions from offsets both as reductions from the *SGE Regulation* and from the offsets program, thus creating the potential for double counting.

Reductions from the offset program included those from no-till activities, which may not be appropriate. Our understanding is that management decided to treat no-till activities as offsets even though adoption rates for this practice in Alberta already exceeded the rate that could be considered business as usual. It is our view that only reductions that result from government policy should be counted as valid reductions toward the strategy targets.

Two of seven incentive programs we examined did not consider free rider and rebound effects when forecasting emissions, thus creating a potential for overestimating reductions from these programs.

Public report on strategy progress
The department is preparing its first public report on the progress made toward the 2008 strategy. The department did not require the other departments to formally report on progress with specific actions using the guidance and processes they provided for development of the 2012 implementation plan. Instead, the department asked them to provide direct input into the public report.

This informal approach did not require key information about data and processes for each action. For example, the other departments did not have to provide information about the methods the entities used to calculate emissions. This information is necessary to substantiate the reliability of the data they report. This approach also lacked formal approval from each of the other government departments to confirm the validity of their claims.

Criteria for selecting and evaluating actions
Six years after it introduced the current strategy, the department is still developing criteria for deciding on actions and evaluating their success. Since the strategy's release in 2008, a number of actions, such as those funded with bioenergy grants, have concluded. No new actions have been added.

Implications and risks if recommendation not implemented

Without an implementation plan that includes criteria to select and evaluate actions, the government cannot know whether the actions it is funding will help Alberta achieve its targets to reduce greenhouse gas emissions and whether it is doing so cost-effectively.

Monitoring processes—repeated

RECOMMENDATION 3: IMPROVE MONITORING PROCESSES—REPEATED

We again recommend that for each major action in the 2008 Climate Change Strategy, the Department of Environment and Sustainable Resource Development evaluate the action's effect in achieving Alberta's climate change goals.

Background

In 2008 the department did not have an overall system to track the status of the actions it funded to support the strategy or to monitor their expected contribution to achieving the overall targets. At that time, the department was still developing a governance structure for implementing its strategy.

The *SGE Regulation* requires facilities that emit more than 100,000 tonnes of carbon dioxide equivalent emissions annually to reduce their emissions intensity by 12 per cent below a baseline established between 2003 and 2005. It sets a carbon price of $15 per tonne for emissions in excess of the target. The *SGE Regulation* is due for an update in Fall 2014.

Criteria: the standards we used for our audit

The department should carry out the actions in its strategy and monitor progress against emissions reductions targets.

Our audit findings

KEY FINDINGS

- There is no evidence of regular monitoring of progress toward strategy targets between 2008 and 2012.
- There is no clear link between the implementation plan and monitoring and reporting.
- The department's 2012 strategy review involved analysis of major actions and overall performance against targets.
- The department has no clear guidance or effective monitoring to ensure strategy review deliverables and timelines are being met.

We found no evidence that the department regularly monitored performance against the strategy targets between 2008 and 2012. In early 2012 the department determined that Alberta was not on track to meet its 2020 target. At that time, Alberta had committed over $1 billion to two carbon capture and storage projects that were expected to collectively contribute total reductions of three megatonnes in 2020. This was less than 10 per cent of the 35 Mt expected under the strategy. As a result, and in addition to the upcoming expiry and update of the *SGE Regulation*, Alberta's strategy has come under review by the government.

As part of the review, the department hired contractors who specialize in economic modeling, to:

- conduct a quantitative analysis of options for strengthening the *SGE Regulation*
- identify other policy options that would allow Alberta to achieve its targets

At the conclusion of our audit, the department's processes to develop policy options for a new strategy were underway. Thus, we could not examine whether the options chosen for the strategy were supported by the modeling results.

Governance structure

In 2013 the department implemented a governance model for reviewing and revising its strategy. The model included working groups[14] organized by key greenhouse gas emitting sectors and a steering committee.

Department's documents describing roles and responsibilities indicate that the steering committee will:

- provide oversight to the working groups
- ensure timelines, deliverables and milestones are achieved
- meet with the working groups regularly
- be responsible for decision making and for updating the cross-ministry deputy ministers' group and their respective ministries

Key tasks for the working groups include outlining their sector's emissions profile, evaluating the success of current policies or actions to reduce emissions, and proposing policy options to achieve the strategy targets based on information from the modeling. At the conclusion of our audit, each of the working groups were in various stages of completing their tasks to propose policy options that would allow the government to meet its targets.

The department also intends to use this governance model for regular monitoring and reporting progress against the strategy targets once the new strategy is in place. However, it was not clear how the monitoring and reporting will link to the implementation plan.

Strategy review

We found weaknesses in the processes related to the government's review of the strategy. The department created a work plan for the strategy review with deliverables, responsibilities and timelines. We found only one of the working groups created detailed work plans showing how they would meet their responsibilities and timelines.

We also noted that the plan contained internal inconsistencies. For example, working groups had deliverables with target completion dates that were past the due dates for submitting those deliverables to the steering committee. We also noted that the work plan did not identify due dates for key actions such as submitting proposed policy options to the steering committee.

We found no evidence of formal monitoring by the steering committee of the working groups to ensure they were meeting timelines and deliverables. The department stated that the monitoring was delegated to one member of the committee. This was inconsistent with the approved monitoring structure. We found no evidence of regular meetings between the steering committee and the working groups or documentation of key discussions or decisions. At the conclusion of our audit, the department stated that the steering committee is now documenting its meetings and provided minutes of its February 2014 meeting.

The department developed a template indicating the deliverables it expected from the working groups. The template lacked clarity. For example, it was not clear what information source the working groups should use to create an emissions profile for their sector or whether they should use common criteria to evaluate policy options—such as a maximum price per tonne of emissions reductions. The department

[14] Oil and gas, electricity generation, agriculture, transportation, buildings, forestry, other industry, adaptation, cross-cutting themes.

stated that it provided clarification verbally. At the conclusion of our audit, the department was still finalizing the template. It is our view that clear guidelines are necessary for a consistent and efficient process.

Implications and risks if recommendation not implemented

Without a clear process for monitoring its progress, the government cannot know if the actions it is funding are yielding the results it expects.

Technical review—implemented

Background

In October 2009 we recommended that the department strengthen its technical review processes by:[15]

- requiring facilities to provide a process map with their compliance reporting
- ensuring staff document their follow-up activity and decisions in the department's regulatory database

The department's reviewers are professional engineers who examine facility baseline and compliance reports and associated verification reports. The reviewers use a checklist to document their review and findings, and make recommendations to management on which reports should be subject to re-verification.

Our audit findings

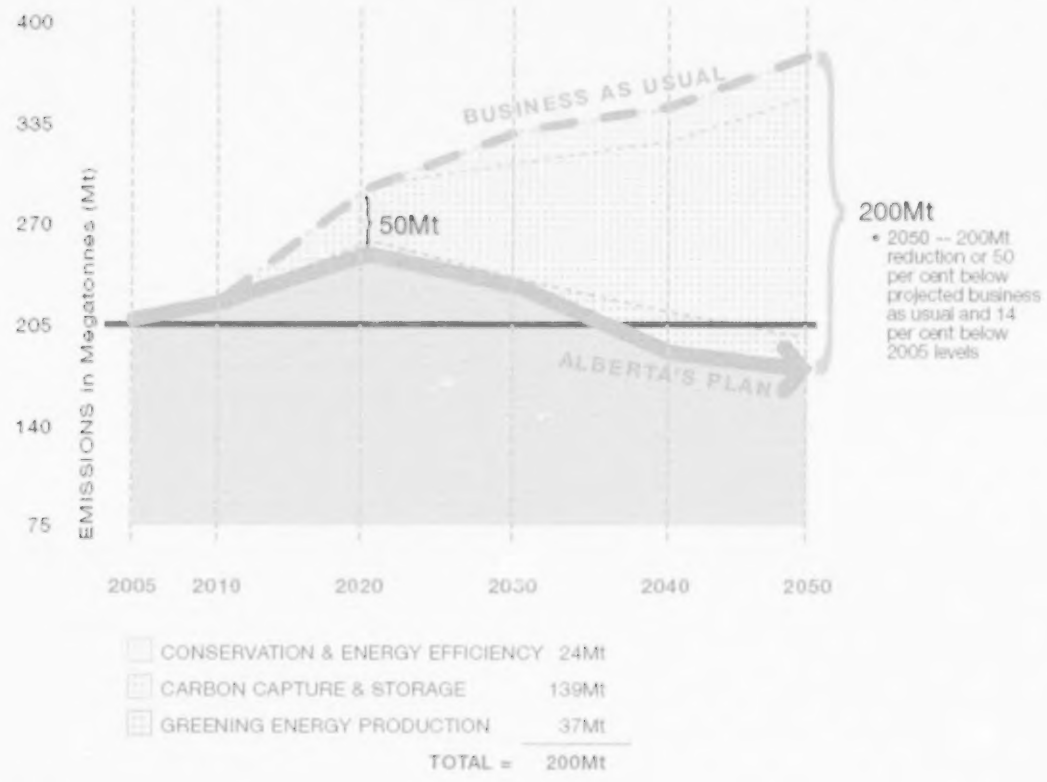
The department's guidelines for facilities require them to submit process maps with their reports. The department developed guidelines for how reviewers should maintain the supporting documents that facilities provide in response to their follow-up. Informal guidelines also exist for what reviewers should do to verify the accuracy of additional evidence the facilities provide. The department's review checklists were amended to include pertinent information about the reviewer and how the reviewer resolved issues. The reviewers and facilities complied with the department's guidelines for all samples we tested.

The reviewers contacted facilities when they required additional information about the submitted reports. The facilities contacted their verifiers as needed to respond to the department's queries. For all samples we tested, this process allowed the department to obtain all the information necessary to review facility reports.

[15] *Report of the Auditor General of Alberta—October 2009*, page 45.

Appendix

Alberta's Emissions Reduction Targets



Source: Alberta's 2008 Climate Change Strategy

Environment and Sustainable Resource Development—Management of Sand and Gravel Resources Follow-up

SUMMARY

Background

In 2008 we performed an audit of the systems the then Department of Sustainable Resource Development used to manage the province's sand and gravel resources. That department is now the Department of Environment and Sustainable Resource Development.

We made five recommendations to the department in 2008.[1] In 2010 we followed up on one recommendation relating to royalty rates for sand and gravel and concluded that the department had implemented this recommendation.[2] In the current audit we followed up on the following:

- enforcement of reclamation obligations
- quantity of aggregate removed
- information management

What we found

Six years after we made the above recommendations, we have had to repeat two of them. The department has not implemented an effective process to carry out its responsibilities to enforce land reclamation obligations; nor has it verified aggregate removed by operators.

The department has developed an integrated system for capturing and consolidating information throughout the life of an aggregate holding to facilitate testing of operators' compliance with their legal obligations.

What needs to be done

The department needs to:

- reassess and improve its processes for inspecting aggregate holdings on public land and improve its process to enforce land reclamation requirements
- improve its systems to verify quantities of aggregate reported as removed by industry from public lands so that all revenue due to the Crown can be determined and recorded in the department's financial statements

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[1] *Report of the Auditor General of Alberta—October 2008*, pages 355-367.
[2] *Report of the Auditor General of Alberta—April 2010*, page 139.

Why this is important to Albertans

We did the original audit to determine whether the department was effectively managing Alberta's sand and gravel resources, and was fulfilling its responsibilities for environmental stewardship of public lands. Albertans should know whether the department has systems to verify aggregate that operators remove, so that the department can ensure that it is collecting all royalties due to the government. Albertans should also know whether operators comply with legislation and whether there is a risk that taxpayers may have to assume costs of land reclamation because of operators' possible non-compliance with legislation.

Alberta's sand and gravel are natural resources that play a vital role in every aspect of the construction industry. The Government of Alberta is accountable to Albertans for ensuring that:

- operators fulfill their obligations to reclaim public lands in a timely manner
- the department knows how much aggregate operators remove and obtains all the royalties that operators must pay to the Crown
- the department uses information effectively to manage the province's resources prudently

AUDIT OBJECTIVE AND SCOPE

Our audit objective was to determine if the department implemented three of our 2008 recommendations.[3] In performing the audit, we:

- reviewed legislation and regulation governing management of Alberta's aggregate resources
- reviewed the policies and procedures implemented by the department to oversee land reclamation, verification of aggregate removed and information management
- tested the operating effectiveness of relevant controls put in place by the department
- interviewed selected department employees
- reviewed a sample of the department's audit documentation, findings thereof, and follow up on any issues noted by the department

Timing and extent of audit work and auditor responsibilities

We conducted our field work between June 2013 and February 2014. We substantially completed our audit on May 26, 2014. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set by the Chartered Professional Accountants of Canada.

BACKGROUND

Alberta communities are growing and as a result there is an increase in demand for sand and gravel, which are widely used in the construction industry. The department manages these natural resources for Albertans by overseeing and monitoring operators' compliance with legislation, and it administers access to public lands for sand and gravel extraction. The operations are to be carried out in an environmentally sustainable manner, which includes reclaiming land disturbed. The department also promotes consideration of the environment and economic values, with a view to maintaining and sustaining these resources.

[3] *Report of the Auditor General of Alberta—October 2008*, pages 355-367.

FINDINGS AND RECOMMENDATIONS

We frame our findings in terms of the department's implementation of our 2008 recommendations.

Enforcement of reclamation obligations—repeated

Background

In 2008 we recommended that the department improve its processes for inspecting aggregate holdings on public land and enforcing reclamation requirements.[4]

We repeat this recommendation because the department has not implemented an effective process to carry out its responsibilities to inspect holdings and enforce land reclamation.

RECOMMENDATION 4: ENFORCEMENT OF RECLAMATION OBLIGATIONS—REPEATED

We again recommend that the Department of Environment and Sustainable Resource Development improve its processes for inspecting aggregate holdings on public land and for enforcing reclamation requirements.

Criteria: the standards for our audit

The department should have effective processes for inspecting aggregate holdings on public land and enforcing the land reclamation requirements in accordance with legislation and regulations.

Our audit findings

KEY FINDINGS

- The department developed a land management inspection process. However, the process of risk categorization failed to identify 405 aggregate holdings for inspection.
- The department did not meet its inspection targets and did not follow its process to review the inspection results.
- The department identified an increase in unsatisfactory land reclamations of about 63,000 acres by operators from 2009 to 2013.
- The department has not determined the cost of reclamation to be done by operators and does not have a complete list of operators against whom it has initiated enforcement action.
- The department did not levy penalties against operators who did not comply with reclamation regulations.

The department has taken the following steps to improve land inspection since 2008:

- sought amendments to the *Public Lands Act*, which authorizes remedial orders and penalties for non-compliance
- introduced the *Public Lands Administration Regulation*
- developed and delivered land management inspection training

Inspection of aggregate holdings

Management developed a process for inspecting aggregate holdings based on a risk assessment. While inspections were being carried out, the department identified an additional 405 mandatory inspections that its initial risk assessment had not identified, because of errors in the assessment procedures.

We also found that the department did not meet its inspection target. It completed 252 inspections of 440 mandatory, high, moderate and low risk categorized inspections. Management informed us that this was mainly due to a shortage of resources needed for these inspections.

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[4] *Report of the Auditor General of Alberta—October 2008*, page 360.

Reclamation by aggregate holders

The department's records indicated that operators failed to satisfactorily reclaim 63,000 acres from 2009 to 2013, in addition to 30,000 acres that were already unsatisfactorily reclaimed in 2009. The records also showed that the department cancelled 218,637 acres of aggregate holdings, either because operators were not meeting their contractual obligations or because the operators asked the department to cancel their leases. The increased number of unsatisfactory reclamations and cancelled aggregate holdings with outstanding obligations indicate that there is more work to be done to bring operators into compliance with legislation and regulations.

The department did not estimate the cost of the reclamation to be done by operators that failed to meet their obligations to reclaim the land within the required time. It did not levy penalties against any of the non-complying operators, which the department can impose under legislation. The department was also unable to provide a list of operators against whom it had taken enforcement action. Nor could it provide us with information on how long reclamation obligations were outstanding. In these cases, management informed us that it was pursuing these matters to make operators fulfill their obligations.

Implications and risks if the recommendation is not implemented

Without an effective inspection process, operators responsible for reclamation may not remediate the land disturbance or environmental damage they cause when extracting sand and gravel from public lands. There is a risk that taxpayers may have to bear the cost of remediation.

Quantity of aggregate removed—repeated

Background

In 2008 we recommended that the department develop systems to verify quantities of aggregate the industry reported it had removed from public lands, so that all revenue due to the Crown can be determined and recorded in the department's financial statements.[5]

We repeat this recommendation because although the department developed a process for verifying the industry's reports of how much aggregate it removes, it did not audit operators who had reported royalty income.

RECOMMENDATION 5: QUANTITY OF AGGREGATE REMOVED—REPEATED

We again recommend that the Department of Environment and Sustainable Resource Development improve its systems to verify quantities of aggregate reported as removed by the industry from public lands so that all revenue due to the Crown can be determined and recorded in the financial statements.

Criteria: the standards for our audit

The department should have processes to verify the industry's reports of quantities of sand and gravel it removes from public land. It should also have processes to ensure royalty revenue due to the Crown is accurately determined and recorded in the department's financial statements.

Our audit findings

KEY FINDING

The department did not carry out audits of operators that had reported royalty revenue.

[5] *Report of the Auditor General of Alberta—October 2008*, pages 364-365.

The department made the following improvements in the process it follows to verify the amount of sand and gravel operators extract from public lands:

- developed a risk-based, three-year audit plan for 2012–2015
- developed a royalty audit governance process
- purchased a terrestrial laser scanner to help measure the volume of surface material stockpiled by leaseholders

The department did not audit returns submitted for calendar year 2011 by operators who reported they had removed aggregate and, therefore, owed royalties to the government. The returns submitted totaled $8.5 million in royalties. A total of 1,160 returns were submitted to the department, which completed 199 desktop audits from the nil returns category. The department's audit effort focused on desktop audits of operators who had submitted returns that reported they did not owe royalties to the province.

Implications and risks if the recommendation is not implemented

Without verifying how much material operators remove from gravel pits, the department cannot plan for future needs, nor can it assure Albertans that they are receiving the royalties that are due for the province's sand and gravel resources extracted.

Information management—implemented

Background

In 2008 we recommended that the department capture and consolidate information throughout the life of the aggregate holding and use it to test compliance with legal obligations.[6]

Our audit findings

The department has developed and implemented an integrated system called Geographic Land Information Management Planning System, which consolidates information from three separate legacy databases. The information pertains to elements of leaseholder information, geographic, inspection, as well as financial information from the inception of the leases. The information generated is used to test operators' compliance with legal obligations.

[6] *Report of the Auditor General of Alberta—October 2008*, page 366.

Health—Alberta Health Services—Contracted Surgical Facilities Follow-up

SUMMARY

In 2011 we concluded that AHS made satisfactory progress in implementing our earlier recommendation to establish outcome-based performance measures for non-hospital surgical facilities and use these standards of performance to monitor contracted facilities.[1]

What we found

We concluded that AHS has not made further progress since 2011 and we are repeating our recommendation.

At the time of our audit, AHS's internal audit team had completed its own audit of systems to monitor and evaluate contracted surgical service delivery. Although our audits were performed independently, the findings produced by both audits are consistent.

What remains to be done

To fully implement the recommendation, AHS needs to:

- clarify roles and responsibilities for managing performance under non-hospital surgical facility contracts, particularly in the area of service quality and patient outcomes
- define specific quality indicators that:
  - allow for consistent analysis and benchmarking of quality data across surgical facilities
  - are aligned with requirements of the *Health Care Protection Act* for the purpose of the public benefit analysis
- establish a formal process to periodically review performance under contracts, analyze and act on results, and provide these facilities with timely and appropriate feedback

Why this is important to Albertans

Without adequate systems to monitor and manage performance of contracted surgical facilities, Albertans may not receive the quality of healthcare service they should.

AUDIT OBJECTIVE AND SCOPE

We performed our current follow-up audit in early 2014 to determine whether AHS has fully implemented the recommendation.

We conducted our field work between January and April 2014. We substantially completed our audit on April 25, 2014. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set by the Chartered Professional Accountants of Canada.

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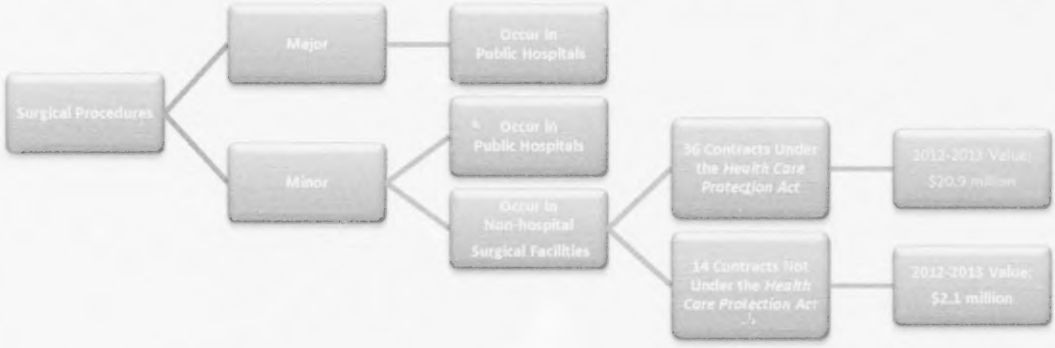
[1] *Report of the Auditor General of Alberta—November 2011*, page 114.

BACKGROUND

To supplement the surgical services that public hospitals provide, AHS contracts with non-hospital surgical facilities to provide Albertans with surgical services in the areas of ophthalmology, pregnancy termination, oral maxillofacial, otolaryngology, podiatric, dental, dermatology and some plastic surgery. The intended benefit of contracting is to increase the healthcare system's capacity to perform surgeries and reduce wait times.

Surgical services in Alberta can be provided at public hospitals or non-hospital surgical facilities.[2] Major surgical procedures can only be performed at hospitals[3] where specialized resources and equipment are available to perform complex procedures and manage serious complications.[4] The diagram below shows how AHS's contracts with non-hospital surgical facilities fit into the provincial model of surgical service delivery.[5,6]


Surgical Procedures
Major
Minor
Occur in Public Hospitals
Occur in Public Hospitals
Occur in Non-hospital Surgical Facilities
36 Contracts Under the Health Care Protection Act
14 Contracts Not Under the Health Care Protection Act
2012-2013 Value: $20.9 million
2012-2013 Value: $2.1 million

Accreditation and approval of non-hospital surgical facilities is done by two professional regulatory bodies. The College of Physicians and Surgeons of Alberta accredits non-hospital surgical facilities, provides practice standards and guidelines[7] and approves the list of procedures that can be performed at these facilities.[8] Dental surgical facilities must be accredited by the Alberta Dental Association and College. To achieve accreditation, the facilities must demonstrate to the colleges that they have appropriate policies and procedures and follow best clinical practices. The colleges require the facilities to report critical incidents, and may decide to perform a detailed review of individual surgeon's clinical practices. However, the accreditation process does not normally involve systematic analysis and benchmarking of overall patient outcomes across non-hospital surgical facilities.

AHS is ultimately responsible for health outcomes of its patients and must report on results achieved for the public funds it spends. Most of AHS's contracts with non-hospital surgical facilities are governed by

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[2] *Health Care Protection Act*, Section 2(1)
[3] *Health Care Protection Act*, Section 2
[4] *Health Care Protection Regulation*, Section 2(1)
[5] Due to timing differences in processing and analysis of information on volume and total cost of contracted procedures, numbers presented in our report may vary slightly from those provided in the AHS's 2012–2013 annual report.
[6] Some surgical procedures can also be performed at a general physician's office, but these are typically very minor in nature.
[7] College of Physicians and Surgeons of Alberta, NHSF Standards and Guidelines. http://www.cpsa.ab.ca/libraries/pro_qofc_non_hospital/NHSF_Standards.pdf?sfvrsn=10
[8] College of Physicians and Surgeons of Alberta, Approved Procedures for Non-hospital Surgical Facilities http://www.cpsa.ab.ca/libraries/pro_qofc_non_hospital/Approved_procedures_for_NHSF.pdf?sfvrsn=10

the *Health Care Protection Act*, which sets out the specific approval and performance reporting requirements outlined later in this section.[9]

In 2012–2013, AHS had 50 contracts across four zones with a total value of $23 million dollars. Table 1 summarizes the number of contracts and their values by zone.[10]

Table 1: NHSF Contracts by Service, Zone and Value in 2012–2013

Service Type	Edmonton	Value	Calgary	Value	North	Value	South	Value
HCPA Contracts								
Ophthalmology	6	$1,946,790	5	$11,358,147	1	$649,800	-	-
Pregnancy Termination	1	$3,022,438	1	$2,120,766	-	-	-	-
Oral and Maxillofacial Surgery	8	$898,908	10	$305,000	-	-	-	-
Plastic Surgery	2	$305,356	-	-	-	-	-	-
Otolaryngology	1	$158,991	-	-	-	-	-	-
Dermatology	1	$129,270	-	-	-	-	-	-
Non-HCPA Contracts								
Dermatology	2	$215,040	3	$160,000	-	-	-	-
Restorative Dentistry	3	$179,504	1	$400,000	-	-	4	$440,000
Podiatry	-	-	1	$700,000	-	-	-	-
Total	**24**	**$6,856,297**	**21**	**$15,043,913**	**1**	**$649,800**	**4**	**$440,000**

The contracts specify the maximum number of procedures and a facility fee that AHS will pay for each type of procedure. These fees compensate facilities for the use of equipment, supplies and nursing staff, but not for the cost of physician services. The Department of Health pays physicians on a fee-for-service basis, according to the Schedule of Medical Benefits.

[9] Contracts that do not fall under this legislation are referred to by AHS as "non-HCPA contracts."

[10] Due to differences in timing of processing and analysis of information on volume and total cost of contracted procedures, numbers presented in our report may vary slightly from those provided in the AHS's 2012–2013 annual report.

The *Health Care Protection Act* requires AHS to do the following for contracts that fall under the Act:

1. Before signing or renewing a contract,[11] AHS must perform a public benefit analysis.[12] Specifically, the Act requires that the agreement shall not be approved unless the minister is satisfied that there is an expected public benefit. AHS's public benefit analysis must consider the following factors:
   - access to services
   - quality of service
   - flexibility
   - the efficient use of existing capacity
   - cost-effectiveness and other economic considerations

2. AHS must set performance measures for the insured surgical services and facility services to be provided under the contract.[13]

3. AHS must make these contracts publically available, including the estimated amounts to be paid under the agreement and the description of performance expectations and performance measures.[14]

4. AHS must receive an annual performance report from the non-hospital surgical facility detailing the number of services performed and a summary of the revenue from enhanced medical goods or services provided with the surgical service.[15] Enhanced medical goods or services are those that are above what would normally be used in a particular case in accordance with generally accepted medical practice[16] (e.g., enhanced lens for cataract surgery). Enhanced medical goods and services are not covered by public healthcare system.

5. As part of its contract management process, AHS must periodically assess the facility's performance against the contract terms. This should include assessment of performance measures and determination of whether the expected public benefit is achieved.

FINDINGS AND RECOMMENDATIONS

Contracts with non-hospital surgical facilities—repeated

RECOMMENDATION 6: STRENGTHEN CONTRACT MONITORING—REPEATED

We again recommend that Alberta Health Services strengthen its process to monitor the performance of contracted non-hospital surgical facilities.

Criteria: the standards for our audit

AHS should monitor the performance of contracted surgical services to ensure that results achieved meet AHS's expectations.

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[11] Contract renewals and amendments must be treated as if they were a newly proposed agreement (*Health Care Protection Act*, Section 9).
[12] *Health Care Protection Act*, Section 8
[13] *Health Care Protection Act*, Section 8(3)(f)
[14] *Health Care Protection Act*, Section 12
[15] *Health Care Protection Regulation*, Section 16(2)
[16] *Health Care Protection Act*, Section 29(f)

Our audit findings

KEY FINDINGS

Although AHS obtains financial and service volume information from non-hospital surgical facilities, it does not yet have adequate systems to monitor their performance under the contracts. In particular:

- Responsibility for performance monitoring of the facilities is not clearly defined within AHS.
- AHS has not defined a performance measurement matrix for surgical services provided through non-hospital surgical facility contracts.
- AHS does not have an adequate process to review and approve non-hospital surgical facilities' annual reports.

Roles and responsibilities for managing facility performance

Responsibility for monitoring the performance of non-hospital surgical facilities is not clearly defined within AHS. AHS's central contracting and procurement area oversees the contracting process and is involved in monitoring compliance with certain financial and legal requirements. However, this central function does not have the clinical expertise to assess service quality and relies on the operations staff in each zone to oversee performance of their local non-hospital surgical facilities. Zone operations employees we interviewed generally lack detailed and timely performance data and did not have clearly defined oversight responsibility to effectively monitor and manage a facility's performance under the contract. Some zone staff mentioned that they rely on AHS's contracting and procurement staff to analyze the facility's annual reports and act on the results.

Reporting expectations and measures of service quality

AHS outlined specific requirements for facilities to periodically report service volumes and certain financial information, but does not have a performance measurement matrix for monitoring service quality and outcomes. Although the *Health Care Protection Act* provides general directions for assessing the performance of non-hospital surgical facilities,[17] AHS does not have effective processes for consistent collection, analysis, benchmarking and comprehensive reporting of non-hospital surgical facility performance data across the province.

We reviewed a selection of annual reports the facilities submitted to AHS and found that they varied in level of detail. This inconsistency among them makes it difficult to assess if AHS achieved the expected public benefit and service quality. The annual reports largely contained lists of staff and copies of their professional certifications and licenses, proof of insurance, confirmation of ownership, and similar documentation.

The facilities' annual reports provide limited information about their performance and do not report on performance in a consistent way. This inconsistency makes it difficult to compare results across facilities for patient satisfaction, access, cost-effectiveness and quality of service. For example, under patient satisfaction survey results sections, we expected to see quantitative performance information. Instead, we noted several instances where there were brief handwritten assertions that there were no issues to report. Under the annual report section covering the summary of quality assurance and monitoring activities at the facility, we consistently found only a general list of activities that facilities indicate they perform. The annual reports did not provide any details or results of those activities (e.g., periodic equipment inspections, patient chart reviews, incident reviews).

[17] *Health Care Protection Act*, Section 8(d)

In addition, AHS could do more with its own information to assess performance of non-hospital surgical facilities. For example, AHS requires facilities to report post-operation complications, but does not use its own databases to validate and supplement information reported by non-hospital surgical facilities. Because some patients who experience complications may choose to see their family physician or visit an emergency department at their local hospital, non-hospital surgical facilities may not be aware of all complications their patients experience. As a result, their reporting to AHS may not be complete.

AHS's own information systems already contain patient data for emergency visits and hospitalizations across the province. AHS also has access to the physician billing data through the Department of Health. Although such data does not offer specific details for each patient file, its analysis can provide AHS with a better trending tool and a more complete picture of potential post-surgery complications.

Review and approval of non-hospital surgical facility annual reports

AHS does not have an adequate process to review and approve non-hospital surgical facility annual reports and assess their performance in areas of service quality and patient outcomes. Although AHS has a process to check annual reports for consistency of financial and volume information, it is not a formalized system, the reviews are generally not documented, and review feedback is not provided to the facilities.

Implications and risks if recommendation not implemented

Without adequate systems to monitor and manage performance of contracted surgical facilities, Alberta Health Services may not achieve the service quality and patient outcomes it expects.

Other matters

The following matters were noted during this follow-up audit. We will use these learnings as we plan our future audit work.

Monitoring of service quality and patient outcomes at public hospitals

Our findings in the area of contracted surgical services will lead us to consider AHS's systems to evaluate quality and outcomes of surgical services provided at public hospitals, which account for most of surgeries done in the province.

AHS's coordination with and reliance on the work of professional regulatory bodies

During this follow-up audit, it was not clear to what extent AHS relies on the College of Physicians and Surgeons and the Alberta Dental Association and College to monitor and manage quality of services provided by non-hospital surgical facilities. Although the colleges are responsible to review and regulate practices of individual surgeons, AHS has the responsibility under the *Health Care Protection Act* to set quality expectations for services delivered through its contracts with these facilities.[18] However, AHS staff involved with non-hospital surgical facilities indicated that they rely on the colleges to monitor and manage service quality. It was not clear what aspects of quality AHS relies on the colleges to monitor, or what supports AHS's reliance on the work of the colleges. It was also not clear how AHS aligns its monitoring activities with those of the colleges.

One of the ways in which AHS could rely on the monitoring work done by the colleges is by obtaining and reviewing detailed non-hospital surgical facility accreditation reports prepared by the College of Physicians and Surgeons and the Alberta Dental Association and College. However, AHS does not

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[18] *Health Care Protection Act*, Section 8(3)(f)

obtain these accreditation reports, despite the fact that the *Health Care Protection Act* requires the colleges to provide copies of accreditation reports to AHS and the Department of Health.[19] AHS asked for these reports from the colleges but to date has not received them. Detailed information contained in a full accreditation report could be useful to AHS, particularly in cases where deficiencies were identified or conditions were attached to an accreditation decision. AHS informed us that they can only obtain the accreditation certificate (and not the full report) by asking the facility, and do not receive information directly from the colleges.

Difference between HCPA and non-HCPA contracts

We could not obtain a clear definition of which surgical procedures fall under the *Health Care Protection Act*, and which do not. During the contracting process, AHS relies on the Department of Health to make this determination. Out of 50 contracts with non-hospital surgical facilities (valued at $23 million per year), 14 are classified as non-HCPA ($2.1 million per year).

Although AHS's internal approval and monitoring requirements were generally the same for both types of contract, there are important differences. Surgical services that do not fall under the Act can be contracted by AHS without ministerial approval and are not subject to the public reporting requirements that apply to HCPA contracts. While the College of Physicians and Surgeons of Alberta provides the list of procedures it approves to be done at non-hospital surgical facilities,[20] the college is not responsible to define which of these approved surgical services fall under the Act. AHS and the Department of Health could not provide us with clear criteria for differentiating between HCPA and non-HCPA contracts. Without a clear distinction between HCPA and non-HCPA contracts, some contracted surgical services may not receive the appropriate level of oversight and public disclosure.

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[19] *Health Care Protection Act*, Section 21(2)

[20] College of Physicians and Surgeons of Alberta, Approved Procedures for Non-hospital Surgical Facilities http://www.cpsa.ab.ca/libraries/pro_qofc_non_hospital/Approved_procedures_for_NHSF.pdf?sfvrsn=10

Innovation and Advanced Education—Athabasca University—Administrative Systems Renewal Project Follow-up

SUMMARY

In July 2013 we reported that Athabasca University did not have well-designed project controls and strategies to manage the Administrative Systems Renewal Project it planned to implement.[1]

We recommended that the university formalize and improve its:

- business change management planning
- project management controls

The university has implemented our recommendations by:

- defining business change plans and preparing business areas to follow the new system and processes, ensuring they understood the project scope, process changes and internal control changes
- introducing a formal project management approach that relies on defined project controls and standards
- hiring a new chief information officer and program manager

We used a project scorecard in the original audit to highlight where the university needed to improve its approach to business change management, project management and IT governance risks. Following is an update to our original assessment.

PROJECT RISK MANAGEMENT SYSTEMS *(control design only)*	ORIGINAL ASSESSMENT	FOLLOW-UP ASSESSMENT	OVERSIGHT PROCESS
1. Business readiness and transformation	◆	○	Business change management
2. Scope and objectives	△	○	Business change management
3. Staff engagement	△	○	Business change management
4. Internal business controls	◆	○	Business change management
5. Go/no-go implementation criteria	△	○	Business change management
6. Project management standards	◆	○	Project management
7. Systems development standards	△	○	Project management
8. Roles and responsibilities	◆	○	Project management
9. Sustainment plan	◆	○	Project management and Project governance
10. Executive oversight	△	○	Project governance

[1] *Report of the Auditor General of Alberta—July 2013*, pages 29–39.

◆	**Red:** Management must make significant improvements immediately.
△	**Yellow:** Project controls require more rigour to ensure project managers and governance boards are alert to potential impacts to the project.
○	**Green:** Control is formalized—the control is adequately designed and implemented, a re-assessment may be required later by the project or independent auditor—to ensure the control continues to effectively mitigate its inherent risk throughout the project's life cycle.

To govern effectively, the board of governors needs accurate and timely information on major projects to ensure risks are managed effectively. The audit committee exercised appropriate oversight when weaknesses with the Administrative Systems Renewal Project plan were identified. The committee stopped the project until management could define an action plan to resolve the weaknesses and ensure appropriate resources were available to lead and complete the project.

Why this is important to Albertans

Albertans want to know that publicly funded institutions are making the best use of public funds provided to educate post-secondary students. Athabasca University is an online post-secondary institution that offers courses to students around the world—over 750 programs to more than 30,000 students per year. It depends heavily on computer technology to deliver its learning programs and manage administrative systems. A failure with the new system could impair its operations.

AUDIT OBJECTIVE AND SCOPE

Our audit objective was to determine if the university had implemented our recommendations. We used the original audit criteria to assess whether management now has appropriate risk management systems, with defined controls for the project. We reviewed key project documents and interviewed project team members and senior management involved in the project.

We conducted our field work from December 2, 2013 to February 14, 2014. We substantially completed our audit on February 21, 2014. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set by the Chartered Professional Accountants of Canada.

BACKGROUND

The university started the Administrative Systems Renewal Project in the fall of 2011, to replace its ageing financial, human resource/payroll and student systems. The university contracted with a specialist in higher education software to provide the new system and to support project management.

The university planned to implement the new system in three phases. Implementation dates were revised when weaknesses with the project plan were identified and as of February 21, 2014 are:

PHASE	ORIGINAL DATE	REVISED DATE
1 - Finance	April 1, 2013	April 1, 2014
2 - HR/Payroll	December 31, 2013	December 31, 2014
3 - Student	March 1, 2014	March 1, 2015

FINDINGS

Formalize and improve business change management planning—implemented

Background

In 2013 we recommended that the university formalize its business change management plans, to help its business operations, staff, faculty and students prepare to implement the new administrative system.[2] We found that business change management plans, internal control change documentation and testing, and conversion and training strategies were not formalized.

Our audit findings

The university has documented the changes needed for its finance module control environment and is in the process of doing so for the human resource/payroll system modules. Business process changes, a data conversion strategy and plans, and system and user testing strategies and training plans have all been defined.

A staff resourcing plan identifies when the project will draw on internal resources and how operational backups will cover for staff assigned to the project. This has helped improve staff morale and ensure the university's business operations are uninterrupted during the project.

Project status reports and meeting minutes verify that the business stakeholders are now actively involved in critical business decisions and attend regular project sessions such as user acceptance testing and business readiness planning and training.

Our follow-up audit has confirmed that the university has adequately improved its planning and implementation readiness activities for the finance module, and has established a process to do the same for the remaining project phases.

Formalize and improve project management controls—implemented

Background

In 2013 we recommended the university ensure that a formal project management and systems development methodology and approach are clearly defined, implemented and available to all staff working on the project.[3]

We had found that a formal approach and methodology for project management and systems development were not clearly defined and consistently applied, certain internal costs were not budgeted, formal change management processes were not in place, implementation criteria and project gating[4] processes were not formalized, project files were neither organized nor current, and there was no formal post-implementation sustainment plan.

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[2] *Report of the Auditor General of Alberta—July 2013*, page 35.
[3] *Report of the Auditor General of Alberta—July 2013*, page 37.
[4] Project gating is a process to determine if the project has achieved its objectives and outcomes at a certain point in its schedule and decide whether to proceed to the next milestone or deliverable.

Our audit findings

The university implemented our recommendation by:

- adopting the vendor's formal project management and implementation methodology controls and development standards, based on IT industry standards
- hiring a new program manager (to oversee all projects) and assigning a finance project manager; allocating new team leads and new vendor staff to the project
- hiring a new chief information officer to provide oversight and leadership for the project
- improving reporting on risks, financials, changes and critical decisions through regular project status reports to the university's governance bodies
- defining plans to prepare the business and IT support services to implement the project and support it afterwards
- reporting project costs to its oversight bodies, which included computer costs, consultant and internal staff costs, license fees and project changes
- including project gating criteria in its schedules and implementation plans
- having its internal audit team perform two independent project health-check audits since May 2013, to verify that improvements with project controls were in place and working effectively, including improved project financial reporting
- ensuring that its project files are well organized and maintained, evidencing that a rigorous project management process is in place

Project governance risks

Background

Project governance includes the use of external reviews on the health of a project to provide assurance that the project is progressing as planned. While we made no recommendation in our original audit, we observed that management had not had its internal audit review the project to determine if project risk management plans and control activities were working effectively.

Our audit findings

The university's internal auditor has now completed project health audits for the first phase of the project. Management should ensure that this continues for the remaining phases of the project. As well, we found that project status reports involving key stakeholders are occurring regularly.

Transportation & Justice and Solicitor General—Commercial Vehicle Safety Follow-up

SUMMARY

What we examined

Our follow-up audit focused on three key areas that we found needed improvement in our 2009 audit[1] of systems the Government of Alberta uses to monitor and enforce safety standards for commercial vehicles.[2] We evaluated whether the departments of Justice and Solicitor General and Transportation:[3]

- strengthened their enforcement practices and improved the information they made available to inspectors
- incorporated a risk-focused approach for selecting vehicles for inspection
- used data more effectively when developing strategies and performance measures

What we found

We found that Transportation is not consistently complying with its policy to take disciplinary and enforcement action against non-compliant carriers. This is unsatisfactory as it could allow unsafe vehicles to continue operating on Alberta highways and could diminish the usefulness of inspection, enforcement and disciplinary action to improve carrier behaviour. We also found that Transportation does not have a reliable process to identify and follow up on carrier-related complaints received and entered into the system by Justice and Solicitor General. Thus, the benefit of having the public help identify potentially problematic carriers is reduced. We are therefore repeating our recommendation to strengthen enforcement processes, particularly for those carriers that persistently do not comply.

Using a regional planning process, Transportation has improved its identification of carriers that pose a higher risk. Also, a new inspection tool provides inspectors with real time access to inspection histories and the ability to quickly input and submit their inspection results. Justice and Solicitor General has also improved its data analysis of driver behaviours, through a more comprehensive approach to its analysis. Therefore, we have concluded that the remaining two recommendations from 2009 have been implemented.

What remains to be done

Transportation needs to follow its own policy by taking timely and appropriate disciplinary and enforcement action for carriers and drivers that do not meet Transportation's deadlines for fixing problems. Also, Transportation, working with Justice and Solicitor General, should implement a systematic process to ensure all carrier-related complaints are followed up.

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[1] *Report of the Auditor General of Alberta—October 2009*, pages 117-132.

[2] Commercial vehicles are trucks, tractors and trailers that have a registered gross weight of more than 4,500 kilograms and buses having a manufacturer's original seating capacity of 11 or more persons, including the driver.

[3] In 2012 the government reorganized—the Commercial Vehicle Enforcement branch transferred from Transportation to Justice and Solicitor General. The Carrier Services branch continues to operate at Transportation.

Why this is important to Albertans

With economic expansion and a growing population, more commercial vehicles are on Alberta roads than ever before. Albertans need to know that Alberta's commercial vehicle safety programs will identify high risk vehicles, deal with them appropriately, and ultimately help reduce risks while ensuring the goods transported on our highways make it to their destination.

AUDIT OBJECTIVE AND SCOPE

Our objective was to determine whether the departments of Transportation and Justice and Solicitor General implemented our 2009 recommendations. To conclude on this objective, we examined the systems for selecting vehicles for inspection, processes for enforcing corrective action arising from inspections, and processes to analyze driver behaviour data.

We conducted our field work from July 2013 to April 2014. We substantially completed our audit on May 23, 2014. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set by the Chartered Professional Accountants of Canada.

BACKGROUND

Transport Canada is responsible for monitoring federal commercial vehicle carriers.[4] It delegates this responsibility to authorities in provinces and territories, through the *Motor Vehicle Transport Act*.[5] The *Motor Vehicle Transport Act*[6] requires provinces and territories to enforce the *National Safety Code*[7] for commercial vehicle carriers. The *National Safety Code*[8] requires commercial vehicles to have a safety fitness certificate before they may operate on Canadian highways.

Justice and Solicitor General and Transportation are responsible for regulating and enforcing provincial and federal carriers[9] that travel within the province. The two organizational branches that are responsible are Commercial Vehicle Enforcement (Justice and Solicitor General) and Carrier Services (Transportation).

Commercial vehicle inspections

Justice and Solicitor General's Commercial Vehicle Enforcement branch is responsible for ensuring commercial vehicles meet Alberta's safety standards and comply with provincial and federal legislation while operating on the roads. They do this by:

- selecting and performing commercial vehicle inspections
- implementing programs to target high risk vehicles for inspection
- preparing occurrence reports for issues identified during inspections and submitting those reports to Transportation's Carrier Services branch so that carriers can be monitored

[4] A federal carrier operates interprovincially and internationally.
[5] R.S.C. 1985, c. 29 (3rd Supp.)
[6] Section 3(3)
[7] The *National Safety Code* is a set of 15 safety standards, developed by the federal, provincial and territorial governments, that covers all aspects of commercial vehicle, driver and motor carrier safety.
[8] Standard 14
[9] A "carrier" under section 130 of the *Traffic Safety Act* means an owner of a commercial vehicle in respect of which a certificate is issued or who holds a certificate or is required to hold a certificate.

The Commercial Vehicle Safety Alliance sets the commercial vehicle enforcement criteria for government inspection programs within North America.[10] Officers use the CVSA criteria to inspect federally and provincially licensed commercial vehicles and their drivers.

The Commercial Vehicle Enforcement branch performs inspections at the weigh scales and during mobile patrol duties. Officers visually inspect trucks as they drive by, using their knowledge of potential issues to determine whether to inspect the vehicle. Officers can also issue a traffic violation report for issues not covered by the CVSA inspection.

Commercial carrier monitoring

Transportation's Carrier Services branch is responsible for monitoring whether carriers comply with various acts, regulations and codes.[11] They do this by:

- receiving and processing complaints/concerns from drivers, law enforcement, other government departments and the general public
- investigating regulation breaches, imposing corrective action and administering penalties for those carriers that breach regulations
- monitoring carrier statistical information and safety fitness certificate status

The Carrier Services branch maintains a carrier profile that reports a carrier's history of convictions, inspections and collisions, using information provided by inspectors, law enforcement and other government agencies. Carriers can download their profile through a secure website.

Transportation notifies carriers of their status and the consequences of failing to deal with non-compliance issues within a reasonable time. "On-monitoring status" can lead to progressive discipline if the carrier does not respond appropriately to the issues. If necessary Transportation may take action, including auditing a carrier's facility, downgrading the carrier's rating, issuing administrative penalties and revoking the carrier's safety permits and licences.

FINDINGS AND RECOMMENDATIONS

Progressive sanctions—repeated

Background

In 2009 we recommended that the department strengthen its enforcement processes relating to, or arising from, roadside inspections. We found Transportation's correspondence to carriers did not provide deadlines for compliance and consequences for continued non-compliance. This directly undermined the enforcement of these required actions. We also found instances where complaints were not always dealt with appropriately. At the time of the 2009 audit, Transportation was reviewing its enforcement policies to ensure more timely and appropriate sanctions for non-compliance.

Since our audit, Transportation implemented a progressive disciplinary and enforcement policy[12] that provides guidance for intervention when carriers fail to comply with the law. It outlines the types of non-compliance, called events, such as failing to submit a safety fitness certification application, failing to submit insurance information or failing a vehicle inspection. The policy is designed so that disciplinary and enforcement action increases in severity when carriers repeatedly do not comply. Each event may result in several levels of intervention, including issuing a warning letter, providing deadlines to correct

[10] Executive Committee Position Responsibilities, 1996–2007 Commercial Vehicle Safety Alliance, revised February 14, 2007.
[11] *Traffic Safety Act* (S.A. 2000, c.T-6); *Commercial Vehicle Safety Regulation* (Alta. Reg. 121/2009).
[12] Progressive Intervention and Disciplinary Policy.

deficiencies, administering fines, and cancelling the safety certificate and vehicle registrations. Additionally, Transportation revised its letters to clarify what was required of non-compliant carriers.

RECOMMENDATION 7: PROGRESSIVE SANCTIONS—REPEATED

We again recommend that the Department of Transportation enforce compliance by carriers who persistently fail to comply with rules and regulations.

Criteria: the standards for our audit

The Department of Transportation should clearly define and consistently apply enforcement standards across the province.

Our audit findings

KEY FINDINGS

- One third of carrier files with non-compliance issues we examined were not followed up by Transportation with timely and appropriate action.
- Complaints about carrier activities received by Justice and Solicitor General were not appropriately identified and followed up by Transportation.

Progressive enforcement policy

The correspondence to carriers we reviewed included all pertinent information, including the infraction, specific compliance requirements the carrier must meet, compliance deadlines and potential penalties for non-compliance. However, based on a sample of carrier files, we found that Transportation did not take timely and appropriate disciplinary or enforcement actions for a third of these carriers. It sent letters to carriers with specified conditions and specific deadlines to taking corrective actions. In the letters, Transportation stated that "failure to satisfy any of these conditions will result in further action being taken." Although the carriers responded to some of these conditions in a timely manner, they did not correct many of the conditions until months past the deadline and a few did not even respond to the department. For those carriers that were late in responding or did not respond at all, Transportation did not consistently impose additional disciplinary or enforcement actions. Some of these carriers remained on "on-monitoring" status in excess of two years.

In our discussion to determine why this occurred, Transportation staff told us that they track the carrier's condition deadlines in each staff member's calendar and meeting application. As a result, the risk of missed condition deadlines is increased. For example, a staff member who leaves might not transfer their notifications for someone else to follow up on. Transportation informed us that it is re-evaluating its process to better inform staff members of upcoming condition deadlines.

Carrier complaint handling

Transportation implemented a complaint handling system to document and respond to carrier complaints. However, we found many of the carrier-related complaints received by Justice and Solicitor General were not communicated to Transportation and were therefore not followed up. We sampled complaints that Transportation received and found it followed the required procedures to appropriately handle the complaint, including tracking, redirecting to the appropriate person to handle it, assessing the complaint, updating the system and responding to the complaint when necessary.

We also sampled complaints that Justice and Solicitor General received, which were entered into the complaint handling system. We were unable to find any evidence that these carrier-specific complaints were followed up. Some of these complaints were in the system for longer than a year. Although the

complaints were logged into a shared handling system, neither department had processes to alert the other of the complaint and to ensure it was adequately followed up.

We found one complaint that involved both departments. Justice and Solicitor General received a complaint about a carrier that encouraged drivers to exceed daily driving limits. The complaint also included information about driver violations and drivers in possession of illegal drugs. This complaint was not followed up for almost two years. It was only followed up after Transportation received another complaint about the same carrier regarding hours of service issues. Had the departments had a process to deal with the initial complaint, the issues could have been resolved much earlier.

To fully implement this recommendation, Transportation should consistently take disciplinary and enforcement action for carriers and drivers who fail to comply with the law. It should develop better processes to notify its staff members when condition deadlines are nearing, so staff members can take timely and appropriate actions. Additionally, Transportation, working with Justice and Solicitor General, needs to implement a process where carrier complaints it receives from Justice and Solicitor General are followed up.

Implications and risks if the recommendation is not implemented

Without timely and appropriate enforcement action taken on high risk carriers, commercial vehicles that are a potential risk to public safety may continue to operate and carriers may not believe there are meaningful consequences for their being non-compliant.

Inspection tools and vehicle selection—implemented

Background

In 2009[13] we recommended that the department improve its inspection capability by incorporating risk analysis into the selection of vehicles for roadside inspection and increasing the information available to officers at roadside.

Our audit findings

Risk-based inspections

Justice and Solicitor General holds annual branch and regional enforcement planning sessions where each region develops its own plan using enforcement data. The plans are developed regionally so that those most familiar with the region can provide input on high risk activities and vehicles. For example, the Stony Plain region decided to focus more of its resources on log and gravel hauling, as these activities had a history of non-compliance. The resulting plans included the region's goals, traffic enforcement initiatives, public education and awareness initiatives, and records management. The regions assessed the plans mid-year and at end of each year as to whether they were achieving the goals.

Justice and Solicitor General has also recently implemented Smart Roadside, which uses an automated licence plate reader and automated thermal imaging to identify high risk vehicles. Smart Roadside's automated licence plate reader is connected to the government's driver and vehicle licensing, carrier profile and online permitting systems. Smart Roadside scans every incoming vehicle and notifies officers when a vehicle meets certain pre-defined criteria that represent risk indicators (e.g., expired registration, hazardous material, poor safety rating). When a vehicle meets any of the criteria, the officer will be notified visually on the monitor and with a pinging sound.

[13] *Report of the Auditor General of Alberta—October 2009*, page 124.

Smart Roadside also has automated thermal imaging that scans tires, wheels and brakes for signs of overheating and wear that are not visible to officers. Officers are trained to watch for certain conditions that would alert them to potential problems with the tires, wheels or brakes. For example, if the tire in the thermal image is white, it suggests that a component failure may require immediate attention. Not all vehicles that are identified are inspected, as this will depend on available personnel, the type of violation and the safety issues. It is at the officer's discretion whether to do an inspection.

Smart Roadside is in the pilot stage and has been partially deployed at four weigh stations (Leduc, Highway 2A, Coutts and Whitecourt). We observed Smart Roadside in operation at the Leduc weigh station. It was functioning as intended and was alerting the officer with more notifications than could be managed. Smart Roadside is in the early stages of deployment, but presents a potentially powerful tool to better identify high risk commercial vehicles.

Justice and Solicitor General drafted a business case to analyse the cost and benefit of expanding Smart Roadside. Its analysis states that a Smart Roadside site can be paid back within a year and a half. The business case includes quantitative and qualitative benefits, such as fewer unnecessary inspections, better targeting and increased enforcement on high risk vehicles, public awareness and improved highway safety. Now, Justice and Solicitor General has to decide which transportation corridors to add and how to prioritize the large volume of notifications they are receiving to allow inspectors to focus on the higher risk commercial vehicles.

Roadside inspection information

Justice and Solicitor General implemented e-Inspection, a system that provides officers with remote access to carrier profiles and inspection history, as well as the ability to input and submit inspection results into the database more quickly. When an officer selects a vehicle for inspection with e-Inspection, the officer has real-time access to data from different databases that contain the most recent carrier, driver and vehicle information. The officer can see whether a vehicle was previously inspected, the results of the inspection, and whether there were any outstanding issues.

Using e-Inspection, the officer inputs the location, driver and vehicle information, and identifies defects and inspection results at the roadside. When the inspection is completed, the officer submits the report through e-Inspection to the supervisor for sign-off. The completed inspections are batched and loaded into the database at the end of the each day. We found, with the implementation of e-Inspection, the lag time between completing an inspection and the availability of the inspection results has significantly decreased.

Improve data analysis—implemented

Background

In 2009[14] we recommended that the department further develop and improve its data analysis practices for use in program delivery and performance measure reporting. The department conducted annual surveys at inspection sites across Alberta. The process did not reflect activity throughout the year and was narrowly focused on the number of vehicles taken out of service for mechanical violations on survey day. Inspections involve interacting with drivers and provide a good opportunity to learn more about the causes of driver behaviour that may not be specifically requested by the inspection.

[14] *Report of the Auditor General of Alberta—October 2009*, no. 15, page. 129.

Our audit findings

We found that Justice and Solicitor General improved its data analysis processes to collect and analyze data. Justice and Solicitor General implemented a random roadside survey to collect data that reflect activities throughout the year and from different regions. It conducted surveys twice a year and at 36 locations. Justice and Solicitor General revised the surveys to collect information on vehicles that require attention or are out of service. They also collected information on driver behaviours that have an impact on safety, such as driver credentials and hours of service.

Treasury Board and Finance—Executive Corporate Credit Cards Follow-up

FINDINGS

Improve credit card controls—implemented

Background

In 2007[1] we examined the use of government credit cards by ministers, deputy ministers and executive assistants. We recommended that the Department of Treasury Board and Finance work with government departments to improve controls over executive credit cards.

In 2010 we found that the department communicated responsibilities to cardholders, updated guidance to accounting and expenditure officers, and introduced a non-compliance process. However, we found transactions at restaurants consistently lacked sufficient supporting information and that instances of non-compliance were not being identified through exception reporting.

Our audit findings

We tested credit card transactions at four departments and found isolated restaurant purchases that were not supported with detailed receipts. Our review of these isolated occurrences indicated that the purchases were not personal in nature nor were they for alcohol. The provincial controller and relevant senior financial officers are aware of the isolated exceptions and have taken appropriate action.

[1] *Annual Report of the Auditor General of Alberta—2006–2007*, no. 17, vol. 1, p. 174.

AUDITOR GENERAL
Alberta

Other Audit Work

REPORT OF THE AUDITOR GENERAL OF ALBERTA

July 2014

Budget for Financial Reporting

In 2013 we reported that the Department of Treasury Board and Finance had informed us it would present a budget for financial reporting (a "constructed" budget) that would be comparable with actual audited results.[1] This budget is necessary because the budget prepared and presented in accordance with the *Fiscal Management Act* is not suitable for comparison to the audited results contained within the province's consolidated financial statements.

In early 2014 the department spent significant time and effort to prepare the constructed budget included in the province's 2013–2014 consolidated financial statements, released publicly in June 2014.

Now that the department has developed processes to prepare a constructed budget, the department needs to consider when the constructed budget should be prepared and made public.

In our opinion, the constructed budget should be prepared and made public prior to the beginning of the period to which it relates. Ideally, this would be done at the same time as the budget under the *Fiscal Management Act* is made public.

A constructed budget for the year ending March 31, 2015 was not included in Budget 2014. Therefore, it was not made public before the start of the year ending March 31, 2015.

The Department of Treasury Board and Finance has informed us it is currently analyzing when is the most appropriate time to make constructed budgets public—when the budget under the *Fiscal Management Act* is made public, during the year, or at the end of the year. The department is also analyzing whether and how the constructed budget should be used to monitor actual results.

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[1] *Report of the Auditor General of Alberta—July 2013*, page 101.

AUDITOR GENERAL
Alberta

Glossary

REPORT OF THE AUDITOR GENERAL OF ALBERTA

July 2014

GLOSSARY

Accountability for results The obligation to show continually improving results in the context of fair and agreed on expectations. For Albertans to receive value for money, all those who use public resources must:

- set measurable results and responsibilities
- plan what needs to be done to achieve results
- do the work and monitor progress
- report on results
- evaluate results and provide feedback (results analysis)

Accrual basis of accounting A way of recording financial transactions that puts revenues and expenses in the period when they are earned and incurred.

Adverse auditor's opinion An auditor's opinion that things audited do not meet the criteria that apply to them.

Assurance An auditor's written conclusion about something audited. Absolute assurance is impossible because of several factors, including the nature of judgement and testing, the inherent limitations of control and the fact that much of the evidence available to an auditor is only persuasive, not conclusive.

Attest work, attest audit Work an auditor does to express an opinion on the reliability of financial statements.

Audit An auditor's examination and verification of evidence to determine the reliability of financial information, to evaluate compliance with laws or to report on the adequacy of management systems, controls and practices.

Auditor A person who examines systems and financial information.

Auditor's opinion An auditor's written opinion on whether things audited meet the criteria that apply to them.

Auditor's report An auditor's written communication on the results of an audit.

Business case An assessment of a project's financial, social and economic impacts. A business case is a proposal that analyzes the costs, benefits and risks associated with the proposed investment, including reasonable alternatives. The province has issued business case usage guidelines and a business case template that departments can refer to in establishing business case policy.

Capital asset A long-term asset.

COBIT Abbreviation for Control Objectives for Information and Related Technology. COBIT provides good practices for managing IT processes to meet the needs of enterprise management. It bridges the gaps between business risks, technical issues, control needs and performance measurement requirements.

COSO Abbreviation for Committee of Sponsoring Organizations of the Treadway Commission. COSO is a joint initiative of five major accounting associations and is dedicated to development of frameworks and guidance on risk management, internal control and fraud deterrence.

Criteria Reasonable and attainable standards of performance that auditors use to assess systems or information.

GLOSSARY

Cross-ministry The section of this report covering systems and problems that affect several ministries or the whole government.

Crown Government of Alberta

Deferred maintenance Any maintenance work not performed when it should be. Maintenance work should be performed when necessary to ensure capital assets provide acceptable service over their expected lives.

Enterprise risk management (ERM) The systems and processes within an organization used to identify and manage risks so it can achieve its goals and objectives. An ERM creates linkages between significant business risks and possible outcomes so that management can make informed decisions. An ERM framework helps organizations identify risks and opportunities, assess them for likelihood and magnitude of impact, and determine and monitor the organization's responses and actions to mitigate risk. A risk-based approach to managing an enterprise includes internal controls and strategic planning.

Enterprise resource planning (ERP) Abbreviation for enterprise resource planning. ERPs integrate and automate all data and processes of an organization into one comprehensive system. ERPs may incorporate just a few processes, such as accounting and payroll, or may contain additional functions such as accounts payable, accounts receivable, purchasing, asset management, and/or other administrative processes. ERPs achieve integration by running modules on standardized computer hardware with centralized databases used by all modules.

Exception Something that does not meet the criteria it should meet—see "Auditor's opinion."

Expense The cost of a thing over a specific time.

IFRS International Financial Reporting Standards (IFRS) are global accounting standards, adopted by the Accounting Standards Board of the Canadian Institute of Chartered Accountants. They are required for government business enterprises for fiscal years beginning on or after January 1, 2011.

GAAP Abbreviation for "generally accepted accounting principles," which are established by the Canadian Institute of Chartered Accountants. GAAP are criteria for financial reporting.

Governance A process and structure that brings together capable people and relevant information to achieve results (the cost-effective use of public resources).

Government business enterprise A commercial-type enterprise controlled by government. A government business enterprise primarily sells goods or services to individuals or organizations outside government, and is able to sustain its operations and meet its obligations from revenues received from sources outside government.

Internal audit A group of auditors within a ministry (or an organization) that assesses and reports on the adequacy of the ministry's internal controls. The group typically reports its findings directly to the deputy minister or governing board. Internal auditors need an unrestricted scope to examine business strategies, internal control systems, compliance with policies, procedures, and legislation, economical and efficient use of resources and effectiveness of operations.

Internal control A system designed to provide reasonable assurance that an organization will achieve its goals. Management is responsible for an effective internal control system in an organization, and the organization's governing body should ensure that the control system operates as intended. A control system is effective when the governing body and management have reasonable assurance that:

- they understand the effectiveness and efficiency of operations
- internal and external reporting is reliable

- the organization is complying with laws, regulations and internal policies

Management letter Our letter to the management of an entity that we have audited. In the letter, we explain:
1. our work
2. our findings
3. our recommendation of what the entity should improve
4. the risks if the entity does not implement the recommendation

We also ask the entity to explain specifically how and when it will implement the recommendation.

Material, materiality Something important to decision makers.

Misstatement A misrepresentation of financial information due to mistake, fraud or other irregularities.

Outcomes The results an organization tries to achieve based on its goals.

Outputs The goods and services an organization actually delivers to achieve outcomes. They show "how much" or "how many."

Oversight The job of:
- being vigilant,
- checking that processes/systems, including the accountability for results system, are working well, and
- signaling preferred behaviour,

all in the pursuit of desired results.

Performance measure Indicator of progress in achieving a goal.

Performance reporting Reporting on financial and non-financial performance compared with plans.

Performance target The expected result for a performance measure.

PSAB Abbreviation for Public Sector Accounting Board, the body that sets public sector accounting standards.

PSAS Abbreviation for public sector accounting standards, which are applicable to federal, provincial, territorial and local governments.

Qualified auditor's opinion An auditor's opinion that things audited meet the criteria that apply to them, except for one or more specific areas—which cause the qualification.

Recommendation A solution we—the Office of the Auditor General of Alberta—propose to improve the use of public resources or to improve performance reporting to Albertans.

Review Reviews are different from audits in that the scope of a review is less than that of an audit and therefore the level of assurance is lower. A review consists primarily of inquiry, analytical procedures and discussion related to information supplied to the reviewer with the objective of assessing whether the information being reported on is plausible in relation to the criteria.

Risk Anything that impairs an organization's ability to achieve its goals.

Sample A sample is a portion of a population. We use sampling to select items from a population. We perform audit tests on the sample items to obtain evidence and form a conclusion about the population

as a whole. We use either statistical or judgemental selection of sample items, and we base our sample size, sample selection and evaluation of sample results on our judgement of risk, nature of the items in the population and the specific audit objectives for which sampling is being used.

Standards for systems audits Systems audits are conducted in accordance with the assurance and value-for-money auditing standards established by the Canadian Institute of Chartered Accountants.

Systems (management) A set of interrelated management control processes designed to achieve goals economically and efficiently.

Systems (accounting) A set of interrelated accounting control processes for revenue, spending, preservation or use of assets and determination of liabilities.

Systems audit To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money. Paragraphs (d) and (e) of subsection 19(2) of the *Auditor General Act* require us to report every case in which we observe that:

- an accounting system or management control system, including those designed to ensure economy and efficiency, was not in existence, or was inadequate or not complied with, or
- appropriate and reasonable procedures to measure and report on the effectiveness of programs were not established or complied with.

To meet this requirement, we do systems audits. Systems audits are conducted in accordance with the auditing standards established by the Canadian Institute of Chartered Accountants. First, we develop criteria (the standards) that a system or procedure should meet. We always discuss our proposed criteria with management and try to gain their agreement to them. Then we do our work to gather audit evidence. Next, we match our evidence to the criteria. If the audit evidence matches all the criteria, we conclude the system or procedure is operating properly. But if the evidence doesn't match all the criteria, we have an audit finding that leads us to recommend what the ministry must do to ensure that the system or procedure will meet all the criteria. For example, if we have five criteria and a system meets three of them, the two unmet criteria lead to the recommendation. A systems audit should not be confused with assessing systems with a view to relying on them in an audit of financial statements.

Unqualified auditor's opinion An auditor's opinion that things audited meet the criteria that apply to them.

Unqualified review engagement report Although sufficient audit evidence has not been obtained to enable us to express an auditor's opinion, nothing has come to our attention that causes us to believe that the information being reported on is not, in all material respects, in accordance with appropriate criteria.

Value for money The concept underlying a systems audit is value for money. It is the "bottom line" for the public sector, analogous to profit in the private sector. The greater the value added by a government program, the more effective it is. The fewer resources used to create that value, the more economical or efficient the program is. "Value" in this context means the impact that the program is intended to achieve or promote on conditions such as public health, highway safety, crime or farm incomes. To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money.

Office of the Auditor General of Alberta
8th Floor, 9925 109 Street NW
Edmonton, Alberta, Canada T5K 2J8

Phone: 780.427.4222
Fax: 780.422.9555
Email: info@oag.ab.ca
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